UNDERSTANDING COLLEGE AND UNIVERSITY ENDOWMENTS

ANSWERS TO COMMONLY ASKED QUESTIONS REGARDING THE PURPOSE, HISTORY, AND FUNCTIONALITY OF ENDOWMENTS

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American Council on Education
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Washington, DC 20036

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WHAT IS AN ENDOWMENT?

An endowment is a valuable tool used by a variety of nonprofit entities, including cultural organizations, hospitals, colleges and universities, K–12 schools, and more, to achieve their specific purposes. At colleges and universities, endowments make a tangible impact on students, faculty, and campuses in myriad ways to support the aims of the institution. While college and university endowments differ in size, structure, and organization, their broad purposes—to advance an institution's charitable mission to expand and enhance educational and research opportunities and programming that benefit the public good—are uniform.

An endowment is an aggregation of donated assets invested by a college or university to support its mission in perpetuity. An endowment represents a legally binding compact between a donor and an institution and links past, current, and future generations. These gifts also allow an institution to make commitments for educational activities now and far into the future with the knowledge that the resources to meet those commitments will continue to be available.

An endowment is not a single entity that can be used for any function, such as a checking or savings account would be. It is a permanent investment fund that comprises hundreds to thousands of separate accounts, which frequently aggregate many individual donations. The vast majority of the donations held in an endowment are restricted by the original donors for specific uses. Endowments allow donors to transfer their private dollars to support public purposes with the assurance that their gifts will serve these charitable purposes for as long as the institution continues to exist.

WHAT ARE THE PURPOSES OF ENDOWMENTS?

Endowments originated to establish a pact between generations—a promise from past and current donors to future students and faculty that the institution will sustain certain commitments over time. Endowments advance multiple objectives, including:

- **Carrying out the charitable mission of the institution.** Endowments are used to advance the charitable mission of an institution by funding programs that benefit students, staff, and the broader community. Endowments support nearly every aspect on an institution's activities and provide a foundation for all the important work of institutions—keeping college affordable, supporting an institution's educational activities, building the research programs that drive innovation, and being economic anchors of our communities.
- **Providing stability.** College and university revenues can fluctuate over time with changes in enrollment (tuition), donor interest (gifts), and public support (largely state and federal). Although endowment earnings also vary with changes in financial markets and investment strategies, most institutions follow prudent spending guidelines that are intended to buffer economic fluctuations and produce a relatively stable stream of income. Because the endowment principal is typically not spent, the earnings generated by the endowment support institutional priorities year after year. This stability is especially important for activities that cannot readily be started and stopped or for which fluctuating levels of support could be costly or debilitating. Endowments frequently support various purposes, including student aid, faculty positions, innovative academic programs, medical research, and libraries.
- **Enhancing access and student support**. Institutions have dramatically increased their own student aid expenditures in recent years thanks, in part, to endowments. Endowments help institutions provide financial aid to students who cannot afford the full cost of attendance and have enabled institutions to respond more fully to changing demographics and families' financial needs. It is not surprising that the colleges and universities with the largest endowments are the ones most likely to offer need-blind admission and meet full demonstrated financial need, as well as to offer no-loan financial aid packages.

An endowment also allows a college or university to support excellence and a broad array of student supports at a lower price than would otherwise be possible. This has been especially important, particularly for publicly supported institutions that have experienced significant fluctuations in state support over the past 20 years that oftentimes have not kept pace with costs for student aid and other services. Without endowments or other private gifts, institutions would have had to cut back even further on their programs, increase tuition and fees even more, or obtain additional state or federal funding to maintain current programs.

- **Encouraging innovation and flexibility.** An endowment enables faculty and students to conduct innovative research, explore new academic fields, apply new technologies, and develop new teaching methods, even if funding is not readily available from other sources, including tuition, gifts, or grants. In fact, the National Science Foundation found that institutions contribute 25 percent of the total funding for research conducted on campus, much of which comes from endowments.[1] Such innovation and flexibility have led to entirely new programs and important discoveries in science, medicine, education, and other fields.
- **Allowing a longer time horizon.** Unlike gifts expended upon receipt, an endowed gift keeps giving over time. Institutions with endowments can plan strategically to use a more reliable stream of earnings to strengthen and enhance the quality of their programs, even if some of their goals will take many years to achieve. By making endowed gifts, alumni and others take responsibility for ensuring the long-term well-being of colleges and universities. Their gifts help enable future generations of students to benefit from a higher quality of education and allow these institutions to make even greater contributions to the public good. Endowments ensure that the education offered today at a particular college or university will have the same value decades from now.

HOW IS AN ENDOWMENT CREATED?

An endowment is established when a donor has stipulated that a gift must be maintained perpetually to support a specified purpose. This ongoing support requirement is honored by investing and growing the fund so that spending can occur annually for the donor's restricted intention—supporting goals now and establishing a reliable foundation for the future. To achieve this, the institution and its governing board must carefully oversee annual spending, investment, fund growth, and reinvestment over time.

In many cases, donors restrict the use of their gifts. Examples of restricted purposes can include student financial aid, student activities, academic positions, and research endeavors. Occasionally, donors establish an endowment at an institution with no specific program purpose. Nevertheless, the gift is an endowment because the institutional support—the spending requirement—is forever. As such, the fund is managed for growth and annual spending, but the institution determines the spending purpose.[2]

Colleges and universities often receive large, unexpected general support gifts, such as bequests. Institutions typically have policies that establish gifts over a certain dollar threshold as a fund that functions similarly to a donor-established endowment. These funds functioning as endowment (FFE), sometimes called quasi-endowments, are also invested for growth and annual spending; the only difference is that the institution's governing board—not the donor—designates the spending purpose. FFEs are set up to ensure strategic spending for mission-related reasons over time.

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1 Michael T. Gibbons and National Center for Science and Engineering Statistics, *R&D Expenditures at U.S. Universities Increased by $8 Billion in FY 2022*, NSF 24-307 (National Science Foundation: 2023), https://ncses.nsf.gov/pubs/nsf24307.

2 CASE (Council for Advancement and Support of Education), *CASE Insights on Voluntary Support of Education: 2023 Report* (CASE, 2024), https://www.case.org/resources/giving-us-college-and-universities-58-billion-fiscalyear-2023.

HOW DO INSTITUTIONS WITH ENDOWMENTS BALANCE THE PRESENT AND THE FUTURE?

There is always a temptation to increase spending to meet the very real needs of today's students and faculty. But institutional leaders understand that this generation could not be supported at today's level of quality if earlier generations had not had the discipline to sustain the purchasing power of their endowments. Similarly, future generations depend on the current one to balance the needs of the future against the claims of the present. In those instances where institutions temporarily increase their endowment spending rate, it is generally for a short period before the more conservative rate is reinstated.

As fiduciaries, trustees have a legal and moral obligation to donors, many long since deceased, who intended that their gifts would support not just one generation but succeeding generations indefinitely. Nearly every state has a statute modeled on the Uniform Prudent Management of Institutional Funds Act that specifically requires trustees to consider both the "long and short term needs of the institution" and its "present and anticipated financial requirements."[3] To keep pace with the rising costs of education, research, and campus life, trustees must reinvest some of each year's earnings and add new gifts as well. Fifty years ago, a donor wishing to endow a professorship at a major university could have done so with a gift of about $700,000. That amount of principal in 1970 would have generated sufficient income to pay the salary of a distinguished professor. But if all of the income generated over the years by that principal had been spent and only the original $700,000 were left, its earnings now would not come close to supporting a professor's salary.

Colleges and universities strive to spend as much as possible on the current generation without diminishing the resources available for future generations. That is, they manage endowments to ensure that a fund supporting a faculty position today will still be able to support a faculty position 20, 30, or even 50 years from now. To achieve these two goals, trustees of colleges and universities have established spending policies that allow their institutions to spend endowment earnings each year that are equal to about 4 to 5 percent of the value of their endowment. Given the uncertainty about long-term investment returns, these spending models assume that endowment value will grow about 7 to 8 percent on average over the long term. In addition, the spending models reflect the need to reserve funds for future program improvements and average long-term inflation of 1 to 3 percent, although college and university costs often rise faster because of the labor-intensive nature of the educational process.

For institutions with larger endowments, endowment revenue can be the largest single source of operating revenue. Given that investment returns are volatile, institutions use smoothing rules that seek to mitigate variations in endowment revenue. One smoothing rule is to apply the spending formula to the three-year rolling average of the endowment. Because colleges and universities have large, fixed costs such as salaries and benefits, smoothing rules provide predictability in campus budgets. In addition, smoothing rules are naturally countercyclical—when investment returns are good, spending is a smaller share of total endowment value, and during leaner times, spending is a larger share. While investment returns plummeted by about 19 percent during the Great Recession, for instance, endowment spending rates increased and the majority of institutions increased endowment dollars spent.[4]

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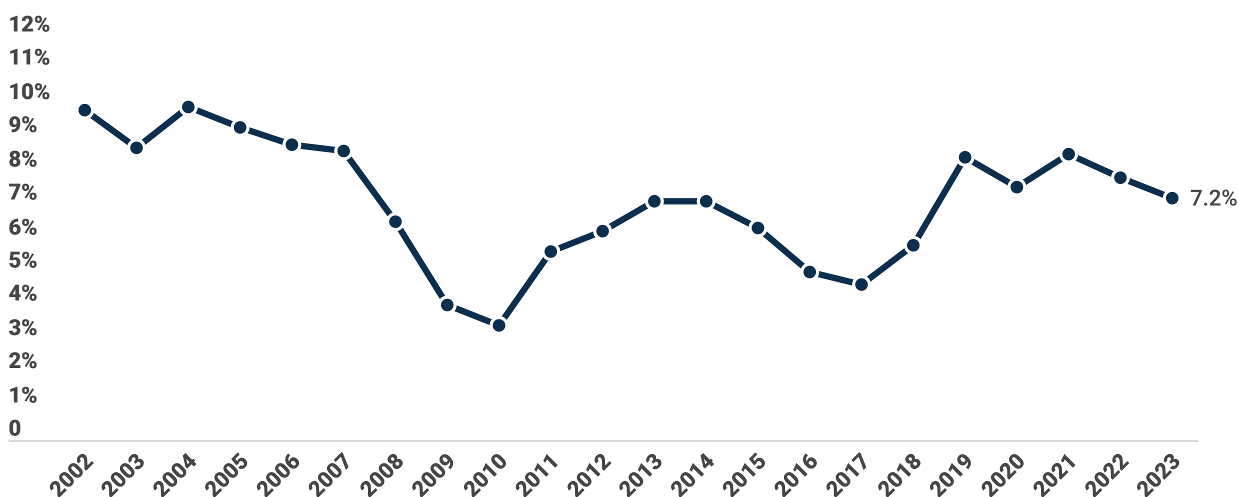
3 National Conference of Commissioners on Uniform State Laws, *Uniform Prudent Management of Institutional Funds Act (National Conference of Commissioners on Uniform State Laws, 2006)*, https://www.uniformlaws.org/viewdocument/final-act-109?CommunityKey=043b9067-bc2c-46b7-8436-07c9054064a3&tab=librarydocuments.

4 National Association of College and University Business Officers and Commonfund Institute, "Educational Endowments Returned -18.7% in FY2009," press release, January 28, 2024, https://edge.sitecorecloud.io/nacubo1-nacubo-prd-dc8b/media/Nacubo/Documents/research/2009_NCSE_Press_Release.pdf.

To visualize the importance of preserving the long-term strength of endowments, it is useful to highlight fluctuations since 2002 and examine how shifts in annual returns impact 10-year average returns.[5]

- The fiscal year ending June 30, 2009 saw the lowest one-year average return (net of fees) for all college and university endowments over the past 20 years, with -18.7 percent. Similarly, the 10-year average annual return was at its lowest in 2010 (2001 through 2010) at 3.4 percent. The preceding 10-year average annual returns were significantly higher, with returns as high as 8.6 to 9.8 percent seen consistently between 2002 and 2007.
- Since 2010, there have been significant fluctuations in average one-year endowment returns, with some years as high as 19.2 percent (in 2011) and 15.5 percent (in 2015) interrupted by very minimum average returns such as -0.3 percent (in 2012) and -1.9 percent (in 2016).
- The years during the COVID-19 pandemic saw stark fluctuations in average one-year endowment returns. In 2021, average returns reached 30.6 percent; they dropped to -8.0 percent in 2022 and climbed back to 7.7 percent in 2023. Despite the volatile shifts, 10-year average returns since 2019, as shown in figure 1, were between 7.2 and 8.5 percent.

FIGURE 1. FY 2002 TO FY 2023 10-YEAR AVERAGE ENDOWMENT RETURNS



Sources: Data from 2002–08 NACUBO Endowment Study; 2009–17, 2023 NACUBO-Commonfund Study of Endowments; and 2018–22 NACUBO-TIAA Study of Endowments.

Every year, depending on their particular investments, some endowments significantly outperform the averages, and others lag behind or may even lose value. Just like individuals, institutions need reserves to protect against unexpected expenses, such as future economic downturns or declines in enrollment, donations, or government support. Additionally, institutions need reserves to pay for unanticipated costs, such as those from the COVID-19 crisis; to comply with new safety standards; or to recover from natural disasters such as hurricanes or earthquakes. Funds functioning as endowment and other capital assets permit an institution to cover its deficits and pay its bills without having to take hasty actions that might seriously damage its quality or financial capacity. When institutions do have to spend principal, they reduce the size of their reserve and the future income that their investments will be able to generate. This reduces the stream of steady, reliable income that will be available to make future commitments and enhance the quality of their programs. The challenge is to find an appropriate balance—not being so cautious that important current needs are unmet but being cautious enough so that the institution is prepared to weather serious reversals in the national economy.

5 "Public NCSE Tables," 2023 NACUBO-Commonfund Study of Endowments, National Association of College and University Business Officers and Commonfund Institute, last modified June 10, 2024, https://www.nacubo.org/Research/2023/Public-NCSE-Tables.

WHO HAS ENDOWMENTS AND IN WHAT AMOUNTS?

While public attention focuses primarily on the relatively small number of colleges and universities with large endowments, most colleges and universities have only modest endowments or none at all. Data from the National Center for Education Statistics (NCES) show that by the end of FY 2022, 61 percent of private nonprofit four-year colleges and universities and 56 percent of public four-year institutions either had endowments of less than $50 million or reported that they did not have an endowment.[6] Additionally, as shown in table 1, 36 percent of private institutions and 24 percent of public institutions had endowments of less than $10 million or did not have an endowment.

An endowment can provide critical support for current programs and the promise of consistent support into the future, but most institutions can cover only very modest fractions of their annual budgets with earnings from their endowments. Among institutions that reported having an endowment, the median endowment at private nonprofit four-year colleges and universities is roughly $43.3 million, which at a typical spending rate of about 4 to 5 percent would support an annual expenditure of between $1.73 million and $2.17 million. This typical spending amount represents 5.2 percent to 6.4 percent of the median total expenditures of a nonprofit four-year institution ($33.6 million). By contrast, while the median endowment at public four-year institutions is comparable at approximately $44.3 million, a spending rate that would similarly support an annual expenditure of $1.77 and $2.21 million represents only 1.1 to 1.4 percent of their median total expenditures ($156.7 million). As table 1 also shows, annual endowment spending at institutions with larger endowments tends to account for larger shares of an institution's annual expenses; despite having significantly higher expenses, endowment spending at the institutions with the largest endowments is more than double the median rate for both public and private nonprofit institutions.

Of the roughly 1,500 private nonprofit four-year institutions that reported on their endowments (or lack thereof), 401—or about 27 percent—had endowments over $100 million. Similarly, of the more than 700 public four-year institutions that reported on their endowment status, 213—or about 29 percent—had endowments over $100 million. Overall, only 131 institutions (6 percent of public and private four-year colleges and universities with reported data) had endowments exceeding $1 billion. Of these, 86 were private nonprofit and spent on average $224 million from their endowments in FY 2022, whereas 45 were public and spent on average over $100 million.[7]

TABLE 1. FY 2022 ENDOWMENT VALUES AND ENDOWMENT SPENDING/EXPENSES FOR PUBLIC AND PRIVATE NONPROFIT FOUR-YEAR INSTITUTIONS

	Size		**Endowment Spending/Expenses**	
	Private	*Public*	*Private*	*Public*
No endowment	16%	8%	N/A	N/A
Up to $10M	20%	16%	1%	0%
$10M–$25M	11%	18%	3%	1%
$25M–$50M	14%	14%	3%	1%
$50M–$100M	13%	15%	5%	1%
$100M–$500M	18%	18%	8%	2%
$500M–$1B	3%	5%	8%	2%
Over $1B	6%	6%	12%	3%

Source: Data from U.S. Department of Education, Integrated Postsecondary Education Data System, 2022.

6 ACE's analysis includes IPEDS data on only public and private nonprofit four-year degree-granting institutions located in the United States that participate in Title IV programs (federal financial aid and student assistance).

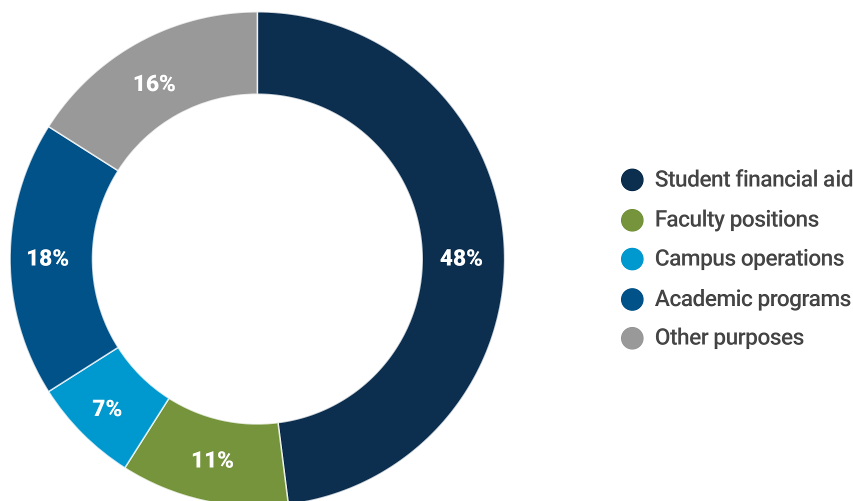
7 U.S. Department of Education, Integrated Postsecondary Education Data System, 2022, https://nces.ed.gov/ipeds/datacenter/InstitutionByGroup.aspx.

HOW ARE ENDOWMENTS USED?

Endowments allow institutions to bolster funding for students' educational opportunities in ways that otherwise would not be feasible, empowering institutions to aim higher and to achieve their educational and charitable purposes more effectively. These benefits—both to the institutions and to those they serve—justify the effort necessary to build and maintain endowments. For students, their families, and society in general, endowments enable institutions to deliver greater value and attain a higher level of quality than would otherwise be possible in their teaching and research. The reliable long-term support from an endowment enables institutions to increase student financial aid; make commitments to senior faculty; initiate pioneering research; develop stronger teaching programs; invest in new technologies; and maintain their libraries, laboratories, and other physical assets.

According to the 2023 NACUBO-Commonfund Study of Endowments, institutions are overwhelmingly spending their endowments on supporting their students; as shown in figure 2, in FY 2023, 66 percent of spending was on student financial aid and academic programs.[8] Even in difficult financial times, an endowment can sustain an institution's teaching and research and allow it to provide essential support to its faculty and students.

FIGURE 2. FY 2023 ENDOWMENT SPENDING



Source: Data from 2023 NACUBO-Commonfund Study of Endowments.

Endowments also allow institutions to engage in long-range planning with confidence that they will have the necessary resources to complete their most important projects. Institutions need long horizons to make capital improvements, build strengths in emerging academic fields, and adapt to the changing needs and interests of their students and the broader society. Finally, endowments stimulate contributions from donors who want to be sure that their gifts will benefit an institution's educational purposes in perpetuity. This charitable impulse to commit private dollars to support valued public purposes continues to create and strengthen endowments for the benefit of both this and future generations.

HOW HAVE ENDOWMENTS CHANGED OVER THE YEARS?

Although the concept of endowments originated in England in the fifteenth and sixteenth centuries, the development of endowments for higher education institutions is a decidedly American phenomenon. Endowments have supported U.S. colleges and universities for more than 300 years but have become increasingly consequential

8 NACUBO (National Association of College and University Business Officers) and Commonfund Institute, *NACUBO-Commonfund Study of Endowments 2023* (NACUBO and Commonfund Institute, 2024).

for institutions over the past century. In 1917, the federal government established the income tax deduction for charitable giving, which encouraged and spurred charitable giving. The cumulative total size of college endowments doubled between 1920 and 1930, though per-student values decreased in the 1930s through the 1950s.[9]

Up until the early 1970s, endowments were primarily governed by principles from English trust law, which limited spending of trustees to only income generated by the investments.[10] The 1972 Uniform Management of Institutional Funds Act (UMIFA), among other actions and pressures, expanded spending ability to include both income and capital gains. Up until these changes, endowments had been primarily invested in bonds, limiting the ability of endowments to grow. These new policies ushered in the modern era of endowment management, and in the decades since, endowment managers refined their investment strategies and focused more on investments with higher returns. As a result, institutional endowments have become an essential operational component that has bolstered current programming while helping institutions prepare for the future. In 2006, the National Conference of Commissioners of Uniform State Laws wrote the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which sought to bring UMIFA—an act that governed endowment funds and donor-imposed restrictions—in line with modern investment and expenditure practice. In particular, UPMIFA eliminated the historic dollar value floor in favor of more guidance on "prudent" behavior, permitting nonprofits to spend from underwater endowments, provided their boards ascertained that such action is prudent based on seven specific factors.[11] UPMIFA has been enacted in 49 out of 50 states.[12]

The 2000s marked two distinct economic crises in which endowments helped institutions prevent difficult situations from becoming worse. In the face of the international economic crisis following the Great Recession, which began in 2008, most institutions made significant budget cuts and, in some cases, increased their endowment spending rate above normal levels to help moderate higher tuition increases, maintain or increase student aid, and support the quality of their programs.

In 2020, the onset of the COVID-19 pandemic—while only impacting financial markets for a few months—forced colleges and universities to implement a wholesale shift to online instruction, causing massive disruption and enormous unforeseen expenses and revenue losses. ACE and the major higher education associations calculated that the financial impact of the pandemic on students and institutions would total at least $120 billion.[13] Many institutions temporarily increased their endowment spending rates to help mitigate some of these enormous costs. In FY 2020, 70 percent of institutions had increased their endowment spending from the previous year, with an average increase of about $3.3 million.[14]

In an ever-changing world full of new opportunities and threats, the management of endowments has enabled institutions to bolster operational spending, handle crises, and be well prepared for the future.

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9 National Center for Education Statistics, *Years of American Education: A Statistical Portrait* (U.S. Department of Education, 1993) 73, 120, https://nces.ed.gov/pubs93/93442.pdf.

10 Much of the information in this section comes from *The NACUBO Endowment Study: A 50-Year Retrospective*, which offers more on the history of endowments. See National Association of College and University Business Officers (NACUBO) and Commonfund Institute, *The NACUBO Endowment Study: A 50-Year Retrospective* (NACUBO and Commonfund Institute, 2024), https://info.commonfund.org/ncse-2023-50yr-retro.

11 Rachel M. Williams, "Transitioning from UMIFA To UPMIFA: How the Promulgation of the Uniform Prudent Management of Institutional Funds Act Will Affect Donor-Initiated Lawsuits Brought Against Colleges and Universities," *Journal of College and University Law* 37, no. 1 (2010): 202, 208–218.

12 National Conference of Commissioners on Uniform State Laws, *Uniform Prudent Management of Institutional Funds Act*, https://www.uniformlaws.org/committees/community-home?CommunityKey=043b9067-bc2c-46b7-8436-07c9054064a3.

13 Ted Mitchell and the American Council on Education, Letter to House Speaker Nancy Pelosi and Minority Leader Kevin McCarthy, September 25, 2020, https://www.acenet.edu/Documents/Letter-House-Fall-COVID-Supplemental-092520.pdf.

14 National Association of College and University Business Officers and TIAA, *2020 NACUBO-TIAA Study of Endowments* (TIAA, 2021).

HOW AND WHY DO HIGHER EDUCATION ENDOWMENTS FUNCTION DIFFERENTLY FROM FOUNDATIONS?

Foundations and university endowments can be mistakenly grouped, but colleges and universities and foundations are very different kinds of institutions. Foundations typically support specific charitable activities through grantmaking and other forms of activities and programs. Unlike colleges and universities, foundations often have limited infrastructure, are frequently run by a single family, and generally have a narrow-targeted mission often achieved through grantmaking.[15] Additionally, colleges and universities are public charities with diverse boards, many donors, and various forms of public support that adhere to significant federal and state oversight mechanisms. Given the mission and structure of foundations, the public has an interest in ensuring that the foundation is adequately serving its charitable purposes in return for the tax advantages granted to the donor. In response to Congressional investigations in the 1950s and 1960s regarding concerns that many foundations were not distributing funds for charitable purposes, Congress enacted a tax provision that requires private foundations to make annual minimal payout for their charitable purpose—currently set at 5 percent of the fair market value of investment assets—or be subject to an excise tax.[16]

In contrast, funds donated to college and university endowments are given for the express purpose of supporting designated educational or scholarly activities over a long period of time. There are many constituencies that play a role in ensuring that these dollars are spent for their intended purposes, including students, faculty, alumni, local residents, and government agencies. If anything, the pressures on colleges and universities push in the direction of spending more of the endowment's earnings on current purposes to the potential detriment of sustaining the purchasing power of the endowment for a future in which the costs of high-quality education and research are likely to be even greater.

WHY DO INSTITUTIONS CONDUCT CAMPAIGNS TO INCREASE AN ENDOWMENT RATHER THAN RAISE FUNDS FOR IMMEDIATE NEEDS, SUCH AS STUDENT AID OR BUILDING RENOVATIONS?

Most institutions do both. They raise annual funds to help meet immediate needs, but they also raise dollars for endowments to help meet long-term needs. Endowed institutions meet the needs of today with earnings from gifts they were given in the past, and the endowed funds they raise now will help ensure that they can continue to educate students and support faculty research even when budgets are tight or economic downturns reduce annual voluntary contributions.

WHY DO DONORS GIVE TO HIGHER EDUCATION?

Frequently, donors want to support access to higher education—particularly for low- and middle-income students—as colleges and universities expand financial aid programs to help students pursue their postsecondary goals. In addition, donors may want to support innovative research, such as to understand a particular disease and develop prevention strategies; generate solutions to monumental challenges, such as climate change; or pursue technological breakthroughs in fields such as artificial intelligence. Institutions need additional resources if they are to serve their public purposes effectively and remain world leaders in their fields.

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15 NCFP (National Center for Family Philanthropy), *Trends 2020: Results of the Second National Benchmark Survey of Family Foundations* (NCFP, 2019), https://www.ncfp.org/knowledge/trends-2020-results-of-the-second-national-benchmark-survey-of-family-foundations/.

16 26 U.S.C §4942; Marion R. Fremont-Smith, *Governing Nonprofit Organizations: Federal and State Law and Regulation* (The Belknap Press of Harvard University Press, 2004), 272–273.

HOW ARE ENDOWMENTS MANAGED?

Each institution adopts its own strategies and rules to maximize its endowment's capacity to support both current spending and future needs. Some institutions manage their endowments with their own staff; others rely on their trustees, contract with professional managers, or use a combination of approaches. Some institutions seek to maximize income, while others focus on total return (defined as income plus capital appreciation).

Many institutions adopt formal spending rules that seek to ensure a growing stream of revenues from the endowment to support each year's expenditures, to guarantee sufficient reinvestment so that the value of the endowment is maintained relative to rising costs over time, and to permit greater predictability in budgeting by smoothing out year-by-year fluctuations in earnings. For many institutions, this last strategy has proven to be preferable to expanding the institution's budget in response to higher returns only to have to make substantial spending cuts in a later year to accommodate a more typical—or an unusually low—level of income.

Spending rules are the planning mechanism through which institutions seek to deliver a maximum quantity and quality of educational services today without eroding their capacity to support equivalent educational services in the future.

HOW ARE ENDOWMENTS INVESTED?

One of the most important responsibilities of trustees is to oversee the management and allocation of the institution's assets. Trustees are legally obligated to be prudent in their investment management, but they also should make every effort to achieve as substantial a return as prudence will allow. How trustees have sought to strike this balance has evolved, especially in the past 50 years.

Before the twentieth century, real estate was a primary endowment asset for educational institutions, and for much of the twentieth century, when endowment spending was limited to interest and dividends, bonds were the primary asset. The shifts in the 1970s that removed restrictions on endowment spending ushered in a new era of investing in which institutions shifted from an income-oriented approach—where market appreciation is not used to support operating expenses—to a total-return method, which captures returns from dividends and interest and market appreciation.[17] As a result, institutions decreased investments in fixed-income securities and moved to equities; in the 1970s, the share of endowments invested in fixed assets ranged between 20 to 30 percent, whereas the share has dropped to around 10 percent over the past decade.

As endowments transitioned away from fixed assets, equities became the primary investment vehicle though the specific types of equities and other investment tools have changed over the past two decades, as shown in figure 3. While traditional equities have been and still are a substantial portion of endowment investments, nontraditional or alternative investments—such as commercial real estate, venture capital, hedge funds, and other kinds of funds—have received increased attention. How institutions invest their endowments depends on a variety of factors.

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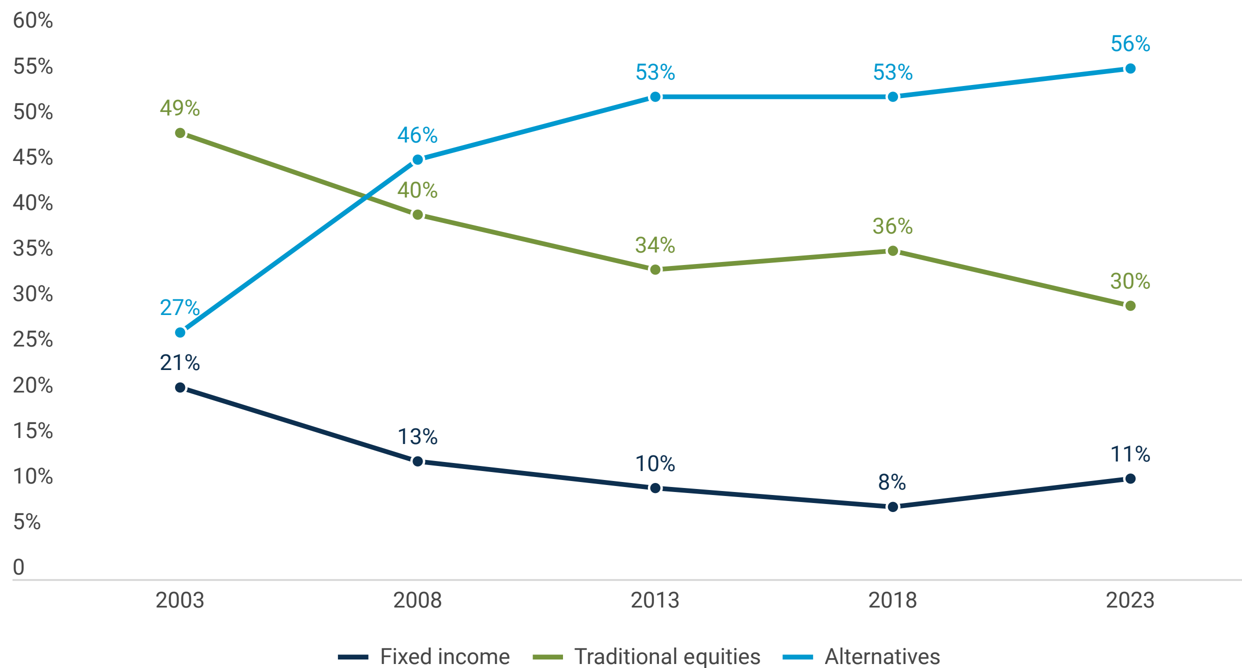
17 NACUBO (National Association of College and University Business Officers) and Commonfund Institute, *The NACUBO Endowment Study: A 50-Year Retrospective* (NACUBO and Commonfund Institute, 2024), https://info.commonfund.org/ncse-2023-50yr-retro.

FIGURE 3. ENDOWMENT ASSET ALLOCATION



Sources: Data from 2003 and 2008 NACUBO Endowment Study; 2013 and 2023 NACUBO-Commonfund Study of Endowments; and 2018 NACUBO-TIAA Study of Endowments. Figures are dollar-weighted averages. Percentages do not add up to 100 because some classifications (ex., other) did not fit into the categories.

CONCLUSION

College and university endowments are widely discussed but often misunderstood. Endowments, which are aggregations of assets invested by institutions to support their missions in perpetuity, provide stability for colleges and universities and their students; bolster expenditures for student financial assistance; and support innovation and flexibility. Consisting of many separate accounts—frequently from individual donations and often with restricted uses—endowments enable donors to support specific purposes with the promise that their gifts will serve their desired intentions for many years. Among the institutions that have endowments, most provide meaningful annual financial boosts and the majority of endowment spending is used to strengthen student financial aid and academic programs. In an evolving world, endowments have allowed institutions to expand access, increase operational spending, and address external crises. The continued forward-looking management of endowments will enable institutions to be well prepared for the future.

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