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Testimony for the Record
Submitted to the
Committee on Ways and Means Subcommittee on Oversight
Of the U.S. House of Representatives
Hearing on Review of Tax-Exempt College and University Endowments
September 13, 2016

As concerns about the cost of attendance and access to higher education have become major issues, there have been questions raised about how college and universities use their endowments and the role those funds might play in lowering college costs. Indeed, this subcommittee has sought a range of information from 56 private colleges and universities with endowments of at least $1 billion.

The Role of Endowments in the Financing Equation

Some have suggested that one way for colleges and universities to hold down tuition increases and lower the cost of attendance for low- and middle-income students is to spend more of their endowment resources. However, while well-intentioned, this suggestion is based in large part on a limited and often mistaken understanding of endowments.

First, it is important to keep in mind that the vast majority of the nation's 4,700 colleges and universities do not have significant endowments. According to the U.S. Department of Education, in 2012–13 the median endowment was $26.2 million at private, four-year colleges and $25.3 million at public, four-year colleges. According to the National Association of College and University Business Officers, in 2014 only about 600 institutions, or about 13 percent, had endowments over $50 million.

Second, contrary to public rhetoric, universities are not "hoarding" their endowment resources. Every year, universities spend a percentage of their endowment funds. In some years, the endowment returns exceed endowment spending. In other years, the reverse is true. In 2015, for example, endowment returns averaged 2.4 percent, yet the average institution spent 4.2 percent of its endowment. Put simply, this means that many schools had a lower endowment in dollar terms at the end of 2015 than they did at the start of the year.

Last year, colleges and universities spent $50.7 billion on institutional student aid, according to the College Board. A good portion of this amount came from endowments. The few colleges and universities with large endowments use their endowment resources to provide substantial student financial aid to enhance access, particularly for low- and middle-income students. Moreover, relying on endowment spending and other private resources, a number of colleges and universities are replacing loans with grants as part of their student financial aid packages. In fact, the schools with the largest endowments often have the lowest net price because they put so much money into student aid. According to *U.S. News and World Report*, the top 10 "best value" national universities are Princeton, Harvard, Yale, Stanford, MIT, Columbia, Duke, Cal Tech, Dartmouth and Brown. Nine of the top ten "best value" national liberal arts colleges are Amherst, Pomona, Williams, Vassar, Washington and Lee, Grinnell, Swarthmore, Haverford and Middlebury. All have endowments above $1 billion, and all have a net price of $23,000 or below.

Endowments are essential to building and sustaining our country's world-class, globally renowned universities. According to the *Times of London*, 17 of the world's top 25 universities are American, all of which have significant endowments. These endowments enable universities to hire needed faculty and staff, acquire equipment and facilities for research and other educational purposes, and enroll students from all economic backgrounds.

In addition, endowments fund a huge array of university operations. Schools with endowments of more than $1 billion often rely on endowments for about 20 percent of their operating budgets. These endowments are used to "level out" spending and help ensure that universities are not subject to large swings in their operating budgets from year to year. These institutions have successfully managed their endowments to provide resources for the benefit of current students and society, while also protecting the needs of future students.

Third, an endowment is not a single entity that can be used for any purpose, like a checking or savings account. Rather, it is a collection of many separate funds that are invested together like a mutual fund. Harvard's endowment, for example, is really 12,000 separate funds. In addition, the bulk of university endowments—at many institutions, 70 percent or more—are comprised of restricted funds, which means they can only be spent for the legally binding purposes, often personally important to donors, that have been specified by those donors. Donors may endow a chair in a particular academic field, give money for specific library collections, designate gifts for academic research, or endow student aid for students meeting particular criteria. Universities must and do take these legal restrictions seriously. Several years ago, for instance, Princeton was embroiled in lengthy and expensive litigation after an heir claimed that the university was not spending a charitable gift consistent with the donor's intent.

Finally, state laws impose important fiduciary duties on college trustees regarding the management of institutional endowments. Specifically, trustees have a legal responsibility to manage and spend endowment assets consistent with donor intent, to fulfill donors' charitable purposes and institutional needs over both the long- and short-term, taking current and anticipated financial needs and return expectations into account. Moreover, they are legally obligated to invest endowment assets as prudently as possible, incurring only "appropriate and reasonable" costs while also making every effort to achieve substantial a return.

Some Misperceptions

It is often claimed, including at the hearing, that salaries paid to college presidents and football coaches and investing in campus amenities significantly contribute to higher overall tuition costs. This is simply not the case.

Take presidential salaries. Although critics frequently focus on the few college and university presidents who earn seven-figure salaries, the median base pay for public college presidents in 2015 was $384,115, according to a *Chronicle of Higher Education* survey of more than 250 CEOs from public universities and systems. The median base pay for private college presidents in 2013 was $ $299,940.[1] And the American Association of Community Colleges reports that the median pay for two-year college presidents is about $185,000.[2] It is important to remember that these are the CEOs of institutions with thousands and sometimes tens of thousands of staff, faculty and students, and ultimate responsibility for every aspect of campus life 24/7. It also is worth noting that college presidents are more likely to be paid less than $69,000 a year than they are to make $1 million or more.

On the topic of coaches, the salaries of some NCAA Division I (D-I) football coaches can be eye-popping. The median salary for a D-I football head coach is about $1.5 million, according to *USA Today*.[3] Most of their salaries typically come from sources outside the university operating budget, such as booster funds and television revenue, sports camps, endorsements and apparel and TV/radio deals. But out of the 4,700 postsecondary institutions in the United States, just over 100 have major D-I football programs. To put the pay of football coaches in a broader context, a 2016 survey by the College and University Professional Association for Human Resources reveals that the median salary of head football coaches, including D-I coaches, is $103,588.[4]

Much has been made about the costs attached to campus amenities such as climbing walls, lazy rivers and allegedly luxurious dormitories. Not very many institutions have these types of facilities, and the campuses that do are meeting student demand. For such student facilities, students and student governments typically vote to fund these projects with an increase in student fees. In any event, such projects are a tiny piece of overall college costs, not a significant contributor to higher tuition, as higher education economics experts such as David Feldman of William & Mary and Jane Wellman of the College Futures Foundation have explained.[5]

Federal Financial Aid and Rising Tuition

A common if unproven assumption raised at the hearing is that federal financial aid drives up tuition. Called the "Bennett Hypothesis" after former Secretary of Education William Bennett, this has never been confirmed, even after numerous exhaustive studies.

A landmark, congressionally mandated study on college costs conducted by the Department of Education found that increases in federal financial aid had absolutely no

[1] Executive Compensation at Public and Private Colleges, *The Chronicle of Higher Education*, July16, 2016.
[2] AACC CEO Survey: Compensation 2015, *American Association of Community Colleges*, 2016.
[3] NCAA Salaries, *USA Today*, 2014.
[4] CUPA-HR, Professionals in Higher Education Salary Survey, 2016.
[5] Lazy Rivers and Student Debt, *Inside Higher Ed*, June 15, 2015.

impact on tuition at public or private nonprofit institutions.[6] In testimony before the Senate Finance Committee, Harvard Professor Bridget Terry Long found "[c]oncerns about colleges raising tuition prices in response to federal aid appear to be largely unwarranted."[7] In a more recent extensive analysis of the issue, economists Robert B. Archibald and David H. Feldman of the College of William & Mary not only found *no* relationship between federal Pell Grants and increases in tuition at public universities, but actually discovered a reverse effect at private, nonprofit institutions: Pell Grant increases generally *reduced* private sector tuitions.[8] In 2014, after reviewing nine methodologically sophisticated studies that investigated the potential causal link between college prices and financial aid, the Congressional Research Service concluded, "there is not a consensus, nor even a consistent set of findings, on the relationship between federal financial aid and college prices."[9]

Conclusion

We fully understand and support the need to make college affordable for low- and middle-income students. Our institutions work hard to do that every day. However, we should avoid the temptation to employ a seemingly simple solution to a complicated problem like rising college costs, in this case forcing colleges and universities with large endowments to spend more of those resources on student aid. This response ignores the fact that those institutions already are devoting a great deal of their resources, including from endowment funds, to increase access for low- and middle-income students. And it is based on a lack of understanding about how university endowments operate.

We look forward to continuing to work with the subcommittee on issues related to cost of attendance and other higher education tax and finance issues. But we hope that the subcommittee will agree that addressing these issues by imposing new federal mandates on university endowments will do more harm than good.

[6] National Center for Education Statistics, U.S. Department of Education, 2001. *Study of College Costs and Prices, 1988-89 to 1997*-98, Executive Summary, p. X, pp. 99-102, 133. *See also,* Wellman, Jane V. 2008. *Cost, Prices, and Affordability: A Background Paper for the Secretary's Commission on the Future of Higher Education.*
[7] *College Tuition Pricing and Federal Financial Aid: Is there a Connection? Before the U.S. Senate Committee on Finance* 1, 2-3 (2006) (statement of Dr. Bridget Terry Long, Associate Professor of Education and Economics, Harvard University Graduate School of Education).
[8] Archibald, Robert B., and David H. Feldman. 2011. *Why Does College Cost So Much? N*ew York, NY: Oxford University Press.
[9] Cong. Research Serv., R43692, *Overview of the Relationship between Federal Student Aid and Increases in College Prices* 29 (2014).

Sincerely,

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President

MCB/ldw

On behalf of:

American Council on Education
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Association of Governing Boards
Association of Jesuit Colleges and Universities
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