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TESTIMONY OF

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COMMITTEE ON FINANCE

of the

UNITED STATES SENATE

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Chairman Baucus, Ranking Member Grassley, and members of the committee, thank you for inviting me to testify on the topic of higher education endowments.

I am an Adjunct Fellow at the Center for College Affordability and Productivity, where we conduct research on issues of rising costs and stagnant efficiency in higher education. I served from 2001-2005 as Deputy Chairman of the National Endowment for the Humanities. And I'm also the mother of a one-year-old whose college education will cost a half million dollars if current tuition trends continue.

Senators, our colleges and universities are sitting on some of the largest fortunes amassed by any institutions in the history of our nation. These riches are proof of America's economic strength and of the boundless generosity of its citizens. But I'm afraid to report that, in too many cases, this wealth is being hoarded instead of shared.

College and university endowment spending practices are stuck in a past when endowments were small, investment gains were marginal, and economic rainy days were frequent. Today higher education endowments are massive and—as we've heard today—aggressively invested. Returns often exceed 12% or more year after year. Yet endowment payouts are miserly—averaging just over 4% last year. The situation begs the question: Is the public benefiting enough? Research indicates the answer is "no."

Jane Gravelle points out that endowment wealth is concentrated in the upper ranks, much of it at 62 institutions with endowments larger than $1 billion.[i] But just three years ago only 39 schools had billion-plus endowments. That's a 38% increase in just a few years. In 2006, 125 schools had endowments over $500 million—a third more than in 2002. The number of schools that can count themselves as endowment-rich or super-rich is growing rapidly.

This wealth no longer resides solely or even primarily in the New England corridor. Twenty-six states including Tennessee, Kansas, Minnesota, and Iowa boast institutions with billion-plus endowments. The University of Pittsburgh, Purdue, Michigan State, and little 1500-student Grinnell College each have endowments larger than a billion. A third of the billion-plus endowments are at public institutions, including four of the ten largest endowments.

Some of the most outsized endowments are at elite institutions. Yale has $2.8 million in the bank per undergraduate. But, on average, independent schools with endowments larger than a billion have $432,422 in their endowment per full-time student.[ii] And plenty of public schools also have impressive endowment-to-student statistics. The University of Virginia and the University of Michigan bank $322,000 and $150,000 per undergraduate, respectively. And even though the

9-campus University of Texas system currently enrolls just under 150,000 undergraduates, its massive $13 billion endowment contains $90,000 for each student.

What the data shows is that endowment wealth is everywhere—except in the hands of the students who need it today. Last year endowments increased 17.7% on average—those larger than a billion increased 18.4%.[iii] Yet, despite double-digit increases stretching back a decade or more[iv]—endowment spending is at a nearly all-time low of 4.2%--down from 5.1% in 1994, 6.5% in 1982, and 5.2% in 1975.[v]

Schools often blame low endowment spending on donor restrictions. But 45% of endowment funds are unrestricted at independent institutions—as are 20% at public schools.[vi] And financial aid is the number one restriction designated by donors—with 36% of gifts restricted for financial aid use in 2005.[vii] Yet spending on financial aid is shamefully small, with many schools putting just a fraction of a percentage of endowment value toward aid.

Ms. Gravelle has addressed the issue of how little additional endowment spending would be required to halt tuition hikes. I will not add to those remarks except to say that stopping tuition increases now is not enough.

Tuition has been going up so rapidly for so long it has reached nearly ungraspable levels. So let me put today's tuition cost in concrete terms. Senators, what would your constituents say if gasoline cost $9.15 a gallon? Or if the price of milk was over $15? That is how much those items would cost if their price had gone up at the same rate that tuition has since 1980.

I believe that skyrocketing tuition is undoubtedly the biggest "access" problem in higher education. What can possibly be more discouraging to a capable student whose parents are not wealthy than a school with a $45,000 price tag on the door?

Here's another concrete comparison. The total worth of the top 25 college and university endowments is $11 billion greater than the combined assets of the 25 largest private foundations — including the Gates Foundation, Ford, and Rockefeller.[viii]

Private foundations have fewer assets and, in part because they give away more of their money, are growing far less. Yet they are spending more—their payout averaged 7% in 2005 even though they are legally required to spend just 5%.[ix]

Yale law professor Henry Hansmann has said that "A stranger from Mars who looks at private universities would probably say they are institutions whose business is to manage large pools of investment assets and that they run educational institutions on the side…to act as buffers for the investment pools."[x]

Senators, our colleges and universities need to be reminded that they are education institutions first and foremost—and that that is why they receive the enormous tax breaks they do. Their practices, including their handling of endowment monies, should reflect their priorities as educators.

Payout information and other basic higher education endowment statistics must be brought out of hiding—made available, for example, via the Department of Education's website in addition to making permanent the proposed endowment-related revisions to IRS Form 990. Should this sunshine prove insufficient motivation, Congress should not hesitate to consider a minimum payout requirement—and 5% should be considered a starting point. The 5% number is a dated one—even for private foundations. Many schools have been rolling over so much money for so long that they should easily be able to accommodate a higher rate of payout. Possibly the most significant challenge for policymakers will be to make sure that any newly directed monies actually go toward aid or tuition reduction and don't become part of a shell game.

Again, thank you for inviting me to testify. I'll be happy to answer any questions.

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[i] National Association of College and University Business Officers, "2006 NACUBO Endowment Study," http://www.nacubo.org/documents/research/2006NES_Listing.pdf.
[ii] "2006 NACUBO Endowment Study," part four, p. 46, table 37.
[iii] "2006 NACUBO Endowment Study," part two, p. 17, table 13.
[iv] "2006 NACUBO Endowment Study," part one, p. 3, table 1.
[v] "1994 NACUBO Endowment Study," exhibit 8; "1987 NACUBO Endowment Study," p. 92, table 78.
[vi] "2006 NACUBO Endowment Study," part four, p, 40, table 31.
[vii] Council for Aid to Education, "2005 Voluntary Support of Education," p. 13, table 12.
[viii] Foundation Center, "Foundation Growth and Giving Estimates," 2007 edition, p. 7. http://foundationcenter.org/gainknowledge/research/pdf/fgge07.pdf
[ix] Foundation Center, analysis of table titled "Change in Foundation Statistics, 2004 to 2005," p. 4.
[x] Hansmann quoted in Peter Brimelow, "Professor Scrooge," Forbes (October 19, 1998), p. 60.