



Talking Points on Endowments

Big Picture

- Endowments support students and their families by investing charitable donations given to support high-quality, affordable, and accessible education.
- Education transforms lives and society. Endowments—permanent funds from charitable gifts—offer our colleges and universities the enduring ability to empower generations of students and shape our world’s future.

Key Points

- Endowments are charitable funds
- A source of stability
- Critical to financial health of colleges and universities
- Mandates and taxes divert resources away from charitable purpose – increase costs.

How endowments work

- Charitable donations to institutions are made of three kinds of giving: annual, capital and endowment.
- Charitable gifts are the primary source of funds for endowments.
- Endowments are a promise for the future—not a rainy day fund or a savings account.
- An institution’s “endowment” is a collection of hundreds to thousands of funds set up through the generous charitable gifts of donors so that institutions can fulfill their missions of life-changing learning and life-saving research.
- Donors typically make endowed gifts for specific purposes such as establishing student scholarships, creating professorships, instituting new programs, or constructing new facilities.
- Most college and university governing boards adopt detailed endowment spending policies that are designed to maintain a smooth spending course while achieving intergenerational equity.
- Schools spend a percentage of their endowment each year to meet current teaching and learning needs. The remainder is invested to preserve the principal and grow the funds to ensure that resources can go to a particular charitable purpose in the future which provides financial stability and certainty.
- Colleges and universities must have the flexibility to determine an appropriate spending rate to ensure that their endowments will continue to provide long-term, stable support for their institutions.
- Endowments vary in size. The overwhelming majority of colleges and universities do not have large endowments. Institutions that do have larger endowments often use them to provide substantial student financial aid to enhance access, particularly for low- and middle-income students.

The importance of endowments

- College and university endowment funds are an important source of revenue which support teaching, research, and public service missions.

- Endowments provide colleges and universities stable and long-term support to fulfill their missions of teaching, learning and conducting vital research. They help institutions increase access and improve educational quality and experience.
- Endowments help colleges and universities maintain educational quality. Institutions with healthy endowments can better manage temporary financial challenges such as economic recessions or unpredictable state funding and still provide a quality academic experience for students.
- As a consequence of state funding cuts and other financial pressures, charitable giving has transitioned from providing a “margin of excellence” for colleges and universities to providing the “margin of existence.” Charitable gifts, including endowed gifts, are absolutely critical to the financial health of institutions.
- Endowments provide vital support for student aid and scholarships, helping increase access and affordability. According to the 2017 Voluntary Support of Education Survey, a plurality of restricted gifts to endowments (38 percent) went to support student financial aid.ⁱ
- Endowed funds help keep college costs down for students. Tuition—even for students who don’t receive aid—covers only a portion of the cost of a student. The rest is covered by endowment earnings, gifts from donors and alumni and other non-tuition sources.
- While endowed funds support student financial aid, they also support other purposes that contribute to a student’s educational experience, including faculty, academic programs and facilities. Endowments also fund ground-breaking research, medical technology and facilities and public service programs.

Taxing generosity

- The new tax law included a 1.4 percent excise tax on the net investment income of private colleges and universities with 1) more than 500 students and 2) an endowment per student ration of greater than \$500,000.
- This misguided tax will result in fewer funds for scholarships, research, faculty and academic programs. Instead of bringing down college costs, this tax does the opposite.
- Additionally, an endowment excise tax is a tax on the endowed charitable gifts of donors, redirecting charitable gift funds away from supporting students, research and academic programs. Our tax policy should encourage donor generosity, not penalize it.

ⁱ 2017 Council for Advancement and Support of Education Voluntary Support of Education Survey
https://www.case.org/AMAtlas_and_Library/AMAtlas.html