Facts About College and University Endowments

College and university endowment funds are an important source of revenue which support teaching, research, and public service missions. Endowments are very complex. They consist of many—sometimes thousands—of different funds. Most of these funds are subject to donor restrictions that institutions are legally required to uphold. Endowment funds are managed to provide a permanent source of income to support the teaching, research, and public service missions of institutions.

C*haritable donations are the primary source of funds for endowments.* Donors typically restrict their endowed gifts to specific purposes such as establishing student scholarships, creating professorships, instituting new programs, or constructing new facilities. Some donors provide unrestricted gifts that enable institutions to support general operations or special initiatives. Endowments typically grow over time through a combination of donations and investment returns.

Endowments are managed for the long-term to strike a balance between the competing demands of funding current operations and preserving purchasing power to fund future operations. A typical college or university pools together its many individual endowments into a single investment fund, much like a mutual fund, which allows for a consistent investment approach. Because endowments are established to exist in perpetuity, endowment funds are usually invested for the long-term. This permits access to high-quality investment vehicles and provides a broader set of investment possibilities. It also allows institutions to better control risk because they are not focused on near-term performance results. However, endowments are not immune from market risks. During the Great Recession, endowments lost an average of 3.0 percent from 2007-08 and 18.7 percent from 2008-09.

Most college and university governing boards adopt endowment spending policies that are designed to maintain a smooth spending course while achieving intergenerational equity. The principle of intergenerational equity ensures that future generations of students and faculty receive at least the same level of support from an institution's endowment as the current generation enjoys. Typical spending policies aim to prevent weak investment returns from forcing commensurate decreases in spending. When investment returns are robust, spending rules help to ensure that any increased spending can be sustained into the future. The resulting financial stability is crucial to colleges and universities, whose mission-critical activities are primarily long-term and not easily started and stopped. These strategies often lead to real growth in the endowment and thus additional benefits to current and future students and society. Most institutions aim for a four to five percent payout each year; in some years they exceed that goal and in others they do not, depending on many factors, including market conditions. An annual investment return of approximately 8 percent is needed to: achieve the typical spending or payout rate goal of 5 percent; reinvest part of the investment earnings to maintain the endowment's value relative to inflation (2-3 percent); and pay for investment management costs (1-2 percent).

Colleges and universities spend endowment income on a wide variety of purposes. Most endowment spending is dedicated to donor-restricted purposes that institutions are legally bound to uphold. At institutions with large endowments, endowment spending contributes significant resources toward their operating budgets; in some cases, it is the largest source of revenue for the institution. Thus endowment spending helps to keep tuition below the level that would be necessary if tuition alone paid the true cost of educating a student. Institutional governing boards, government agencies and institutional advisory boards help to ensure that endowment income is spent for its intended purposes.

Uses of college and university endowments include:

Student Financial Aid: A typical college or university endowment includes many individual funds that are restricted (most often by donors, but also by the institution) to student financial aid. Donor support and strong investment performance in recent years has led many institutions to increase their investment in student financial assistance. According to the College Board, the amount of institutional (i.e., non-governmental) grant aid that colleges and universities provided to their students in 2013-14 was $48.2 billion, which is $23 billion or 90 percent more than they provided in 2003-04. Such institutional grant aid significantly reduces the actual amount students pay in tuition and reduces student loan debt. For example, institutions that offer so-called “no loan” student assistance programs generally rely on endowment income to provide grants to low- and middle-income students who qualify.

Teaching: Faculty chairs or professorships are another leading purpose for which individual endowment funds are dedicated. Like endowment funds for student scholarships, investment income earned by faculty endowment funds is used annually to fund the professorships. Endowed professorships are often awarded to leading scientists and scholars who are contributing significantly to teaching and research in their respective disciplines. Endowed professorships provide a significant source of some institutions’ operating budgets and free up tuition dollars or state funds for other academic purposes.

Research and Innovation: Another purpose for which endowment funds are restricted is scientific and scholarly research. Colleges and universities are increasingly relying on their own resources to assist new faculty in developing their research programs because federal funds have lagged. Institutions sometimes receive large gifts to construct and sustain new medical, scientific, engineering, and other academic facilities, and endowment support is particularly important for the support of research programs housed in the research facilities. Donors also make gifts to establish long-term funds to support areas of medical research such as cancer, diabetes, and Parkinson's and Alzheimer's diseases, as well as research in areas such as chemistry, physics, and engineering. All contribute to the American innovation system that supports our nation's economic competitiveness.

Public Service: College and university endowments often have some portion dedicated to public service programs and activities. Investment income from these endowments funds endeavors such as campus centers for public service, which match the talents, research, and know-how of faculty and students with challenges and service opportunities in the area or state in which the institution is located. Many institutions also have institutes and/or academic units with public service missions that are supported by endowment funding. In some cities, colleges and universities are one of the few large, stable employers remaining. Endowments provide important financial stability to the college or university and, in turn, to the local community. Endowments also provide the financial cushion that enables the college or university to work with towns and cities to improve the quality of local schools and to revitalize neighborhoods.

Athletics: Some alumni and donors make charitable endowment gifts for the restricted purpose of supporting intercollegiate athletics. Colleges and universities use investment income from such gifts to fund athletic scholarships, facilities, salaries and equipment.

This information was compiled with the assistance of the American Council on Education (ACE), Association of American Universities (AAU), Association of Public and Land-grant Universities (APLU), Council for Advancement and Support of Education (CASE), National Association of Independent Colleges and Universities (NAICU) and others For additional information, please contact Brian Flahaven, CASE’s senior director for advocacy, at (202) 478-5617 or [flahaven@case.org.](mailto:flahaven@case.org) .