



Education Industry

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College Endowments: A War Chest – But For Whom?

Highlights

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EdisonLearning acquires online software provider, Provost Systems. Ed Meehan advised Provost Systems. [Click here](#) for the press release.

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- In the 2004-05 academic year endowment funds accounted for \$61.3 billion (15.9%) of the \$386 billion in revenues colleges received from all sources.
- The United States is a large supporter of postsecondary education with over \$29 billion donated to college endowments in 2007.
- In 2007, endowment balances of \$411 billion were reported by 785 reporting colleges in the 2007 NACUBO Endowment Study.
- The 100 colleges with the largest endowment balances (\$313 billion) made up 76% of the total endowment balances reported, while representing only 16% of the total student population in the country.
- Of the top 100 colleges, 37 were public with an *average endowment of \$38,000* per student and 63 were private with an *average endowment of \$344,000* per student.
- As a country we donate a lot, but it seems that a good amount of the college endowment funds do not directly benefit low income students.
- Now with the recent stock market crash, it seems that endowment funds as well as federal, state and local funding available to colleges to meet their costs will be under growing pressure.

We started looking into this topic in early 2008 to better understand the role that endowment funds play in the funding of the U.S. College Education System. We have expected that over time federal, state and local funding for our country's colleges would come under pressure as all levels of government direct larger amounts of money to meet the health care and retirement needs of our aging population.

The events of the last few months with the steep decline in the stock market and the growing commitment of public funding in an attempt to shore up our failing economy clearly may accelerate the reality of the issues discussed here.

Why are Endowments Relevant?

We have spent a lot of time thinking about how education is paid for in the U.S. and the potential funding issues that the sector may face in the future. One area of special interest relates to endowment funds, for two reasons: which schools have the money and how is it helping low income students.

As the funding requirements faced by the federal, state and local governments balloon due to the growth of entitlement spending and costs relating to our aging population, it seems likely that postsecondary education will face funding pressure. We expect that K-12 funding will be a higher priority in the future. This is especially true in the midst of the current stock market crash and recession we are experiencing.

Many schools are realizing that in the future endowment funds will be required to cover potential budget shortfalls and rising costs. In general, when we read about almost \$30 billion being donated each year and annual endowment fund earning of over \$40 billion in some years (but not 2008!), one would hope this is a substantial war chest to assist low income students.

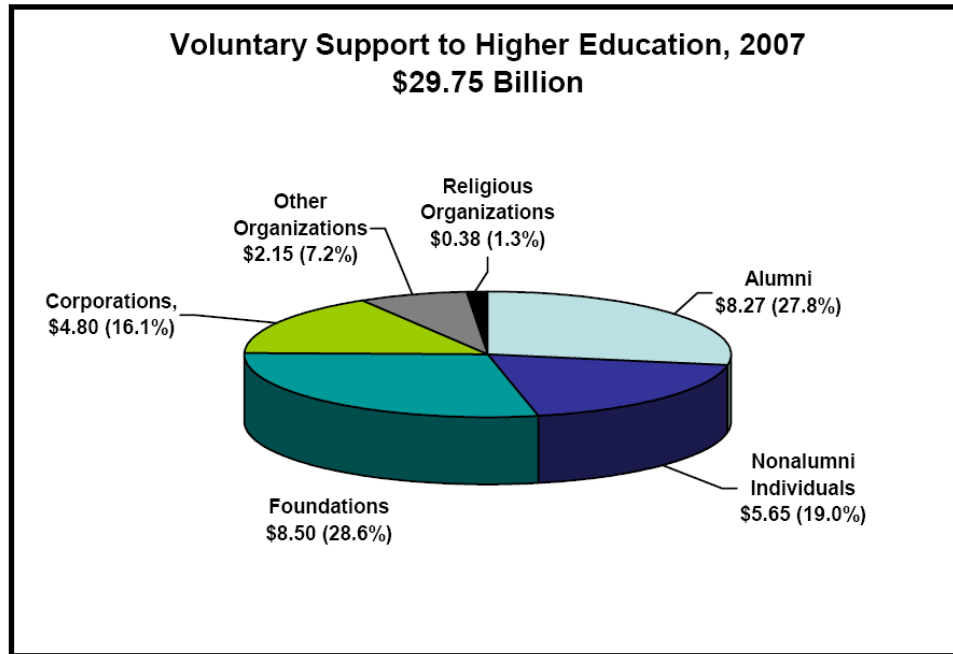
Unfortunately, a good part of the endowment funds that are contributed are not directly helping low income students but rather are benefiting well-known institutions that serve a very limited portion of the low income student universe. In many ways you can view the endowment funds at many colleges as mere nest eggs for the future job security of college administrators and faculty. We expect that many of the Americans who donate to our colleges would be very disappointed to learn how little of their donations help low income students.

So let's start with the data:

Annual Giving to Colleges Continues to Grow

In 2006 U.S. charitable giving was estimated to be a record \$295 billion according to the Giving USA Foundation. Of special note is the fact that over 75% of this amount was contributed by individual donors. Donations to higher education totaled \$28 billion. According to the Council for Aid to Education, in 2007 this amount increased to \$29.75 billion. The chart below depicts the sources of such donations.

Exhibit 1
College Donations – 2007



Source: Council for Aid to Education, 2008

As might be expected, a good portion of the endowment money raised was by well-known private and public colleges. The top 20 2007 fundraising institutions raised \$7.66 billion or 25.8% of all 2007 college endowment contributions. These 20 institutions have total student enrollments of approximately 892,000 students, or approximately 5% of the total U.S. college student population.

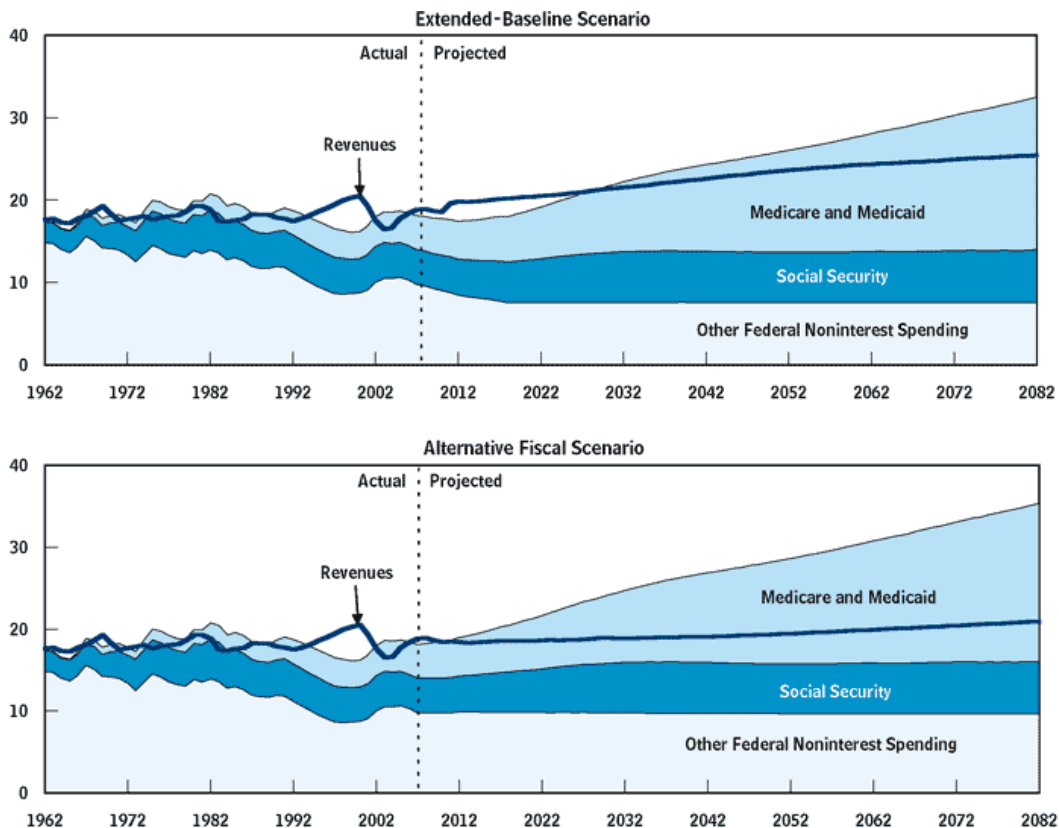
Many people donate money to colleges to promote educational opportunities. As a result of the 6,536 colleges and universities in North America the 785 schools with the largest endowments have approximately \$411 billion in endowment funds. The top 100 of these schools reported endowment funds of \$313 billion, or said another way, the top 100 schools as measured by reported endowment size represent 13% of the total number of colleges in the country but have 76% of the endowment funds reported. These schools represented approximately 16% of the total student population reported in 2007.

We could not find any estimates of the endowment balances of all 6,536 colleges (of which 3,857 are non-profits).

Future Budget Pressure is Inevitable

Based upon current budget estimates it is clear that the country will be facing serious budget shortfalls in the future. In many ways the shortfalls may be more severe and erratic at the state and local levels. As such, we suspect that college funding will come under pressure. Exhibit 2 below presents budget estimates released in December 2007 and clearly shows the dilemma that the country will be facing due to health care and social security requirements. We suspect this will only deteriorate with the recent stock market crash and recession pressures that we are experiencing.

**Exhibit 2
Congressional Budget Estimates
2008 - 2082**



Source: Congressional Budget Office, December 2007 Budget Outlook

<http://www.cbo.gov/ftpdocs/88xx/doc8884/12-13-Testimony.htm>

Note: The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections from 2008 to 2017 and then extending the baseline concept in its projections for the rest of the years in the 75-year projection period, to 2082. The alternative fiscal scenario deviates from CBO's baseline projections even during the next 10 years, incorporating some changes in policy that are widely expected to occur and that policymakers made in the past.

Student and Schools Statistics

Currently we have approximately 18 million students enrolled in postsecondary education. The public school system serves approximately 73% of these students. For the top 100 schools we reviewed, as measured by the size of their endowments, public schools serve approximately 76% of that population.

**Exhibit 3
School and Student Data
2006-07 School Year**

	<u>Non-Degree Granting</u>	<u>Degree Granting</u>	<u>Total</u>	<u>%</u>
<u>Number of Schools</u>				
Public	321	1,688	2,009	30.74%
Private	208	1,640	1,848	28.27%
For-Profit	1,693	986	2,679	40.99%
Total	2,222	4,314	6,536	100.00%
<u>Student Population</u>				
Public	93,343	13,021,834	13,115,177	73.18%
Private	29,321	3,454,692	3,484,013	19.44%
For-Profit	311,665	1,010,949	1,322,614	7.38%
Total	434,329	17,487,475	17,921,804	100.00%
<u>Average Enrollment</u>				
Public	291	7,714	6,528	
Private	141	2,107	1,885	
For-Profit	184	1,025	494	
Total	616	10,846	8,907	

Source: NCES Digest of Education Statistics 2007

2007 NACUBO Endowment Study

Annually, the National Association of College and University Business Officers (NACUBO) in conjunction with TIAA-CREF Asset Management and others sponsor a survey of NACUBO members with endowments of more than \$1 million. According to NACUBO their total membership represents more than two-thirds of the higher education institutions in the United States. The data included here was from the endowment

database on the Chronicle of Higher Education website (see <http://chronicle.com/stats/endowments>) which has the data on the 785 colleges that responded to the NACUBO survey. In the survey the 785 colleges reported total endowment balances of \$411 billion, or \$524 million per school, on average. We then took the top 100 schools with the largest endowments and broke down the data based upon total student count and type of institution. The exhibits below summarize the data. If we back out the endowments for the top 100 schools from this data, the remaining 685 schools reported total endowment funds of \$97 billion, or \$142 million per school, on average. Exhibit 4 demonstrates how average endowment balances per school decline as one looks down the rankings.

Exhibit 4
Endowment Balances
(000's)

<u>School Rank</u>	<u>Endowment Balance June 30, 2007</u>	<u>Average Balance Per School</u>
001-100	\$ 313,922,769	\$ 3,139,228
101-200	48,163,282	481,633
201-300	21,908,909	219,089
301-400	11,863,487	118,635
401-500	7,186,709	71,867
501-600	4,588,858	45,889
601-700	2,622,823	26,228
701-785	926,116	10,895
Total	<u>\$ 411,182,953</u>	\$ 523,800

Source: The Chronicle of Higher Education, NACUBO.

Exhibits 5 and 6 look at per student data for the top 100 colleges. Two sets of figures are worth noting. First, the average endowment per student at the private colleges in the top 100 is \$343,777 per student or nine time the average of \$38, 231 for the public schools and second, the top 100 universities represent less than 16% of all the college students in the country.

Exhibit 5
Postsecondary Enrollments
2007 School Year
(000's)

	<u>Private</u> <u>Schools</u>	<u>Public</u> <u>Schools</u>	<u>Total</u>
Student Population	4,807	13,115	17,922
<i>% of total</i>	<i>26.8%</i>	<i>73.2%</i>	
Top 100	675	2,143	2,818
<i>% of total top 100</i>	<i>23.9%</i>	<i>76.1%</i>	
<i>Top 100 as a % of total</i>	<i>14.0%</i>	<i>16.3%</i>	<i>15.7%</i>

Source: NCES Digest of Education Statistics 2007

Exhibit 6
2007 Top 100 Schools
As Measured by Endowment Size

	<u>Private</u> <u>Schools</u>	<u>Public</u> <u>Schools</u>	<u>Total</u>
Endowments (millions)	\$231,988	\$81,935	\$313,923
Students (000's)	675	2,143	2,818
Endowment per student	\$343,777	\$38,231	\$111,401
Numer of schools	63	37	100

Source: The Chronicle of Higher Education, NACUBO, Arcady Bay Partners, NCES and school websites.

Who Has Been Raising the Most Money?

For the most part, as one might expect, the most successful schools at raising endowment donations are primarily well-known private universities, such as Stanford, Harvard and MIT and to a lesser extent leading public universities such as the University of Virginia, the University of Michigan and Texas A&M.

The top twenty fundraisers below raised approximately 26% of all monies raised while serving approximately 5% of the college students in the country.

**Exhibit 7
2007 Top 20 Fundraisers**

Rank 2007 Funds Raised	Rank Endowment Size	School	Raised (\$ millions)	%	Total Students	%
1	3	Stanford	\$ 832	2.8%	17,747	
2	1	Harvard	614	2.1%	25,778	
3	22	University of Southern California	470	1.6%	33,389	
4	25	Johns Hopkins	431	1.4%	19,708	
5	7	Columbia	424	1.4%	22,317	
6	18	Cornell	407	1.4%	19,639	
7	9	University of Pennsylvania	392	1.3%	23,743	
8	2	Yale	391	1.3%	11,415	
9	15	Duke	372	1.3%	13,373	
10	80	UCLA	365	1.2%	36,811	
11	6	MIT	329	1.1%	10,253	
12	13	University of Chicago	328	1.1%	14,263	
13	45	University of Wisconsin - Madison	325	1.1%	169,708	
14	29	University of Washington	300	1.0%	44,194	
15	8	University of Michigan	293	1.0%	54,894	
16	24	University of Minnesota	289	1.0%	65,753	
17	31	NYU	288	1.0%	40,870	
18	20	University of Virginia	283	0.9%	26,111	
19	47	Indiana University	279	0.9%	103,085	
20	12	University of California - San Francisco	252	0.8%	138,655	
		Subtotal	<u>7,664</u>	<u>25.8%</u>	<u>891,706</u>	4.99%
		Others	<u>22,086</u>	<u>74.2%</u>	<u>16,985,294</u>	95.01%
		Total	<u>\$ 29,750</u>	<u>100.0%</u>	<u>17,877,000</u>	100.00%

Source: The Chronicle of Higher Education, NACUBO, Arcady Bay Partners, NCES and school websites.

Who Has the Most Money?

When we look at the top 20 schools as measured by endowment funds we see patterns that follows the prior fundraising statistics. Fifteen of the schools are private colleges with the highest endowment per student and the five public colleges in the group have the lowest endowment per student as compared to the private schools.

Exhibit 8 2007 Top 20 School Endowments by Endowment Size

School	Rank by Balance	Classification	Market Value		Endowment Per Student
			(000's) 30-Jun-07	Students Total	
Harvard U	1	Private	\$ 34,634,906	25,778	\$ 1,343,584
Yale U	2	Private	22,530,200	11,415	1,973,736
Stanford U	3	Private	17,164,836	17,747	967,196
Princeton U	4	Private	15,787,200	7,085	2,228,257
U of Texas	5	Public	15,613,672	191,001	81,747
MIT	6	Private	9,980,410	10,253	973,414
Columbia U	7	Private	7,149,803	22,317	320,375
U of Michigan	8	Public	7,089,830	54,894	129,155
U of Pennsylvania	9	Private	6,635,187	23,743	279,459
Texas A&M U and	10	Public	6,590,300	78,616	83,829
Northwestern U	11	Private	6,503,292	18,486	351,796
U of California	12	Public	6,439,436	138,655	46,442
U of Chicago	13	Private	6,204,189	14,263	434,985
U of Notre Dame	14	Private	5,976,973	11,603	515,123
Duke U	15	Private	5,910,280	13,373	441,956
Washington U in St	16	Private	5,567,843	13,355	416,911
Emory U	17	Private	5,561,743	12,338	450,782
Cornell U	18	Private	5,424,733	19,639	276,222
Rice U	19	Private	4,669,544	5,024	929,447
U of Virginia	20	Public	4,370,209	26,111	167,370
Total			\$ 199,804,586	715,696	\$ 279,175

Source: The Chronicle of Higher Education, NACUBO, Arcady Bay Partners, NCES and school websites.

Evaluation of Endowment Balances By Student Populations

In terms of endowment funds available on a per student basis it seems that there are meaningful differences between colleges with substantial resources versus those with limited ones. As the table below (drawn from the top 100 schools) depicts the top ten schools as measured by endowment balances per student have on average \$1.5 million per student and are private colleges. The bottom ten schools are public colleges and have, on average, less than \$15,000 per student.

Exhibit 9
Top and Bottom Ten Schools by Endowment Per Student

School	Rank by Balance	Classification	Endowment (000's)	Students	Endowment Per Student
<i>Top Ten by Endowment Per Student</i>					
Rockefeller U	32	Private	\$ 2,145,203	199	\$ 10,779,915
Princeton U	4	Private	15,787,200	7,085	2,228,257
Yale U	2	Private	22,530,200	11,415	1,973,736
Princeton Theological Seminary	67	Private	1,108,515	699	1,585,858
Principia Corporation	95	Private	776,864	525	1,479,741
Harvard U	1	Private	34,634,906	25,778	1,343,584
Pomona C	38	Private	1,760,902	1,545	1,139,742
Grinnell C	40	Private	1,718,313	1,589	1,081,380
Amherst C	42	Private	1,662,377	1,648	1,008,724
Massachusetts Inst of Technology	6	Private	9,980,410	10,253	973,414
Total			\$ 92,104,890	60,736	\$ 1,516,479

Bottom Ten by Endowment Per Student

U of Illinois	48	Public	\$ 1,515,387	72,143	\$ 21,005
U of Alberta	99	Public	722,539	36,562	19,762
U of British Columbia	75	Public	1,013,532	53,374	18,989
Pennsylvania State U	46	Public	1,590,000	88,418	17,983
U of Missouri	70	Public	1,097,846	63,783	17,212
U of Arkansas and Fdn	86	Public	876,839	52,814	16,602
Indiana U and Fdn	47	Public	1,556,853	103,085	15,103
U of Colorado Fdn	100	Public	716,656	60,474	11,851
U of Wisconsin Fdn	45	Public	1,645,250	169,706	9,695
U of Maryland and Fdn	93	Public	810,374	89,762	9,028
Total			\$ 11,545,276	790,121	\$ 14,612

Source: The Chronicle of Higher Education, NACUBO, Arcady Bay Partners, NCES and school websites.

Another way to look at the disparity is to look at the top public colleges and their relative endowment per student.

Exhibit 10
Top Ten Public Schools by Endowment Per Student

School	Rank by Endowment	Classification	Endowment (000's)	Students	Endowment Per Student
<u>Top Ten by Endowment Per Student - Public Universities</u>					
U of Virginia	20	Public	\$ 4,370,209	26,111	\$ 167,370
U of Michigan	8	Public	7,089,830	54,894	129,155
Texas A&M U and Fdns	10	Public	6,590,300	78,616	83,829
U of Texas	5	Public	15,613,672	191,001	81,747
U of NC at Chapel Hill	30	Public	2,164,444	27,717	78,091
Georgia Tech Fdn	55	Public	1,281,162	17,936	71,430
U of Delaware	52	Public	1,397,492	20,380	68,572
U of Pittsburgh	28	Public	2,254,379	34,089	66,132
U of Washington	29	Public	2,184,374	44,194	49,427
U of California	12	Public	6,439,436	138,655	46,442
Total			\$49,385,298	633,593	\$ 77,945

Source: The Chronicle of Higher Education, NACUBO, Arcady Bay Partners, NCES and school websites.

How is Education Paid for Today?

A misconception today is the rising cost of tuition and what tuition really represents. Most people do not realize that tuition is the residual amount students contribute toward the cost of their education – not the actual cost. The table below shows the sources of college funding by type of school. In the case of public colleges, tuition and fees cover only 16.4% of school funding, with endowments being the smallest source of funding. So when looking at endowment contributions to college funding it is clear that endowments play a much larger role in the private university system and a much more limited one in the public system.

Exhibit 11
Revenue Composition 2004-05
 (\$ millions)

	Public Non-Profit	Private Non-Profit	Private For-Profit	Total
Tuition and Fees	\$ 38,527	\$ 41,394	\$ 9,567	\$ 89,488
Federal Aid	30,071	19,699	674	50,444
State and Local Aid	99,823	1,958	63	101,844
Endowment Funds	14,129	47,170	32	61,331
Other Services	52,293	29,929	644	82,866
Total	\$ 234,842	\$ 140,151	\$ 10,979	\$ 385,973
Tuition and Fees	16.4%	29.5%	87.1%	23.2%
Federal Aid	12.8%	14.1%	6.1%	13.1%
State and Local Aid	42.5%	1.4%	0.6%	26.4%
Endowment Funds	6.0%	33.7%	0.3%	15.9%
Other Services	22.3%	21.4%	5.9%	21.5%
Total	100.0%	100.0%	100.0%	100.0%

Source: NCES Digest of Education Statistics 2007

How Well Do Our Schools Serve Low Income Students?

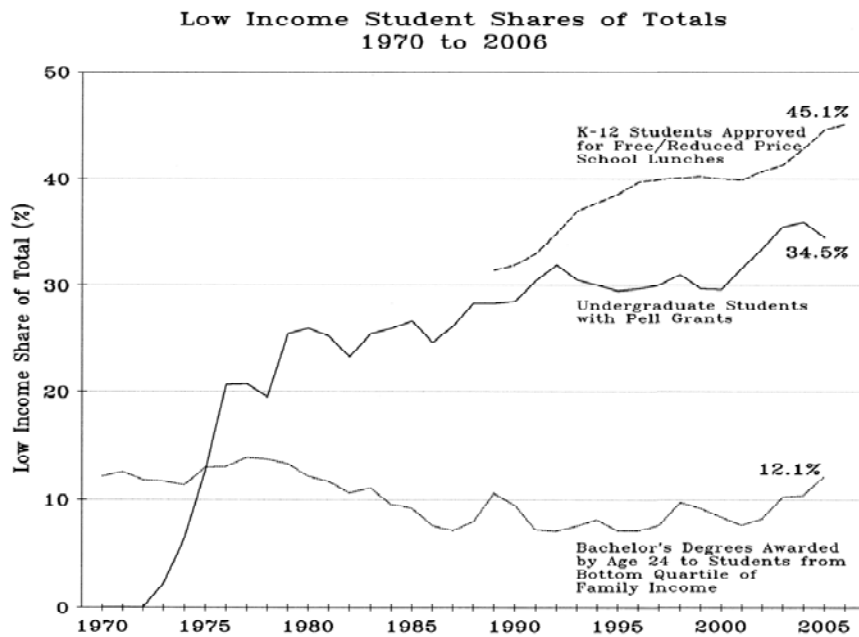
It is clear from the endowment data presented that exclusive private schools, and to a lesser degree, exclusive public schools are the primary benefactors of endowment contributions. To answer the question of how well those colleges with big endowments serve low income students we have looked at work done regarding Pell Grant recipients.

According to the *Federal Pell Grant Annual Report*, in 2006-07 over 5.1 million students received approximately \$12.8 billion in Pell Grants, with a maximum grant per student of \$4,050. Of the 5.1 million recipients, 91% of the recipients had family income levels of \$40,000 or less and 56% has family income levels of \$20,000 or less.

The following exhibits look at well-known exclusive 4-year private and public colleges and the percentage of their relative student bases receiving Pell Grants. These charts are from a presentation that was given to The College Board Forum in October 2007 by Tom Mortenson. We have mentioned Mr. Mortenson’s work before as it is very insightful (see www.postsecondary.org for more about his work).

Exhibit 12 provides a good snapshot of low income student measures at varying education levels. While the data does not correlate specifically, as differing measures are used to define low income at each point, it does give us a sense of the magnitude and serious nature of the issue throughout the student lifecycle.

Exhibit 12



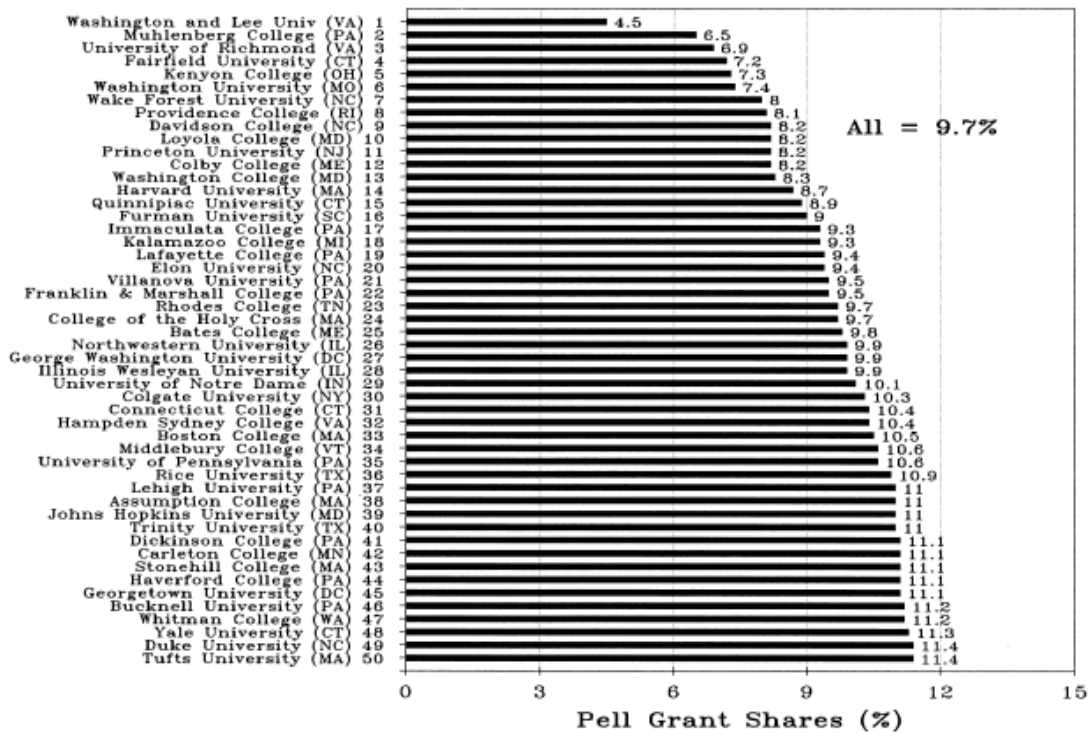
Source: Low income Students at Elites Colleges? Tom Mortenson, October 26, 2007

As shown in the prior exhibit, 34.5% of all college students receive Pell Grant funds. The following two exhibits show the level of Pell Grant recipients at exclusive 4-year private and public colleges. While the public schools serve a substantially greater percentage of

Pell Grant recipients, it is troubling that both private and public colleges fall so far below the averages for the country.

Exhibit 13

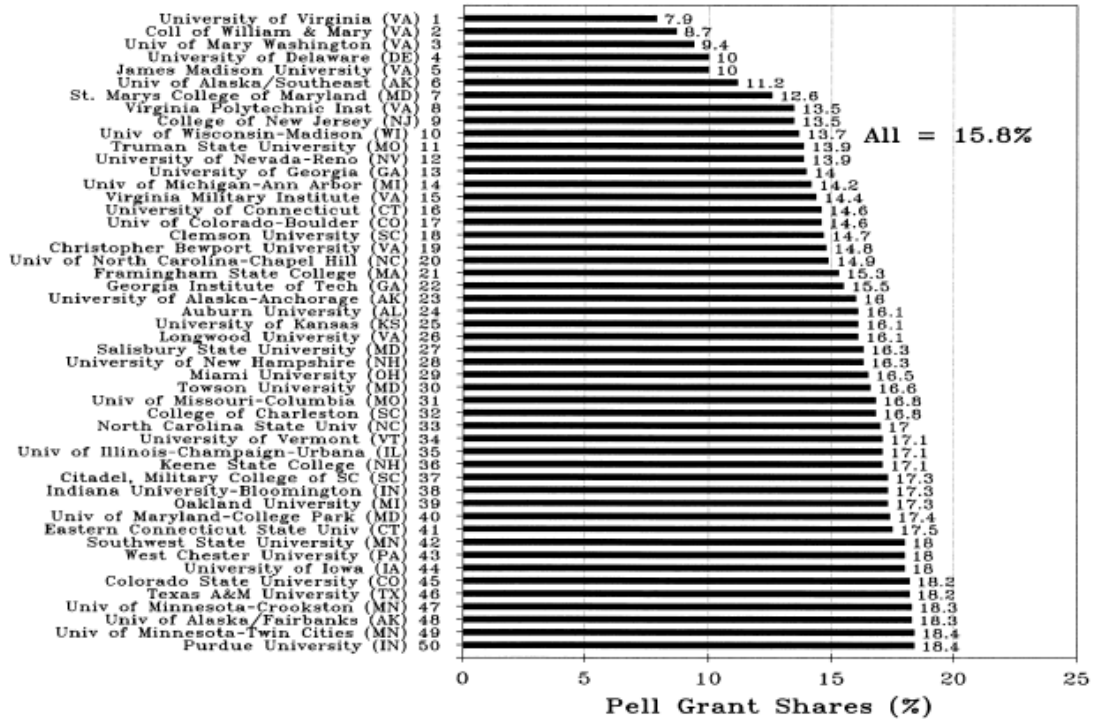
**Pell Grant Shares of Undergraduate Enrollments
at 50 Most Exclusive Private 4-Year Institutions
FY2005**



Source: Low income Students at Elites Colleges? Tom Mortenson, October 26, 2007

Exhibit 14

**Pell Grant Shares of Undergraduate Enrollments
at 50 Most Exclusive Public 4-Year Institutions
FY2005**



Source: *Low income Students at Elites Colleges?* Tom Mortenson, October 26, 2007

What is even more troubling when looking at data such as this is that it seems the more elite colleges in the country are admitting fewer low income students than they have in the past. An article in the Chronicle of Higher Education on May 2, 2008 entitled “*Top Colleges Admit Fewer Low income Students*” looked at top public and private schools based upon endowment size (using a broader base than used in Exhibits 13 and 14). They concluded that the private colleges identified in their survey saw the percentage of Pell Grant eligible students fall from 14.3% in 2004-05 to 13.1% in 2006-07. For the public colleges identified they saw the averages decline from 19.6% to 18.0% over the same period.

And then on to the issues:

What are Our Politicians Doing?

Senator Charles E. Grassley and Senator Max S. Baucus sent letters to 136 institutions with endowment funds of more than \$500 million and recently held hearings regarding

college costs and endowment disbursements. In the case of private foundations, in order to maintain their tax exempt status, they must spend at least 5% of their assets. College endowments have no such requirement and are currently estimated to spend 4.6% of their funds annually. In 2007 college endowment returns averaged 17.2%.

In general many of our politicians were educated in traditional college environments with some having the opportunity to attend exclusive private or public colleges. We suspect that many of them do not fully appreciate the actual cost of education as well as the misallocation of funding between differing school types and student populations.

We would hope that with the financial challenges facing our education system that our politicians begin to better understand the reasons that tuition rates are rising so quickly, how college funding is being allocated and recognize that our system needs to improve its results versus the international community.

At the state level high school graduation rates continue to decline. A recent study by the Education Trust entitled "*Counting on Graduation*" stated that the United States is the only industrialized country in the world in which today's young people are less likely than their parents to have completed high school. Average graduation rates in 2006 ranged from a high of 90% for Asians to a low of 59% for African Americans. On average, 25% of high school students do not graduate on time. To some degree the states have masked this issue through their disparate reporting methodologies. This has been a key area of concern for the National Governors Association and has led to more standardized reporting. Now we need to see a renewed focus on setting higher expectations and developing programs to improve outcomes.

We were pleased to see when Colin Powell announced his endorsement for Barack Obama on October 19th that he identified education as a key issue for the next administration.

What Needs to be Done

We believe that education will start to be identified as a key issue for the U.S. in the global economy as it directly influences our ability to compete. It seems to us that the following needs to take place to help everyone better understand the system and take action to improve it.

- Realize that, like U.S. consumers, many colleges have probably borrowed way beyond their means, expecting tuition to rise forever – the future may hold financial challenges.
- Help our politicians understand that tuition only represents approximately 16% of the funds that public colleges use to operate their schools each year and look at the total amount we spend to educate our children – some may say its criminal.
- Make college administrators realize they are managing a business and they need to better evaluate how they spend money.

- Educate the public and our politicians on the cost/benefit of education – too many students are earning degrees that provide very little in earnings potential and sometime borrow excessive amounts to get such degrees.
- Have Senators Grassley and Baucus spend less of their time worrying about elite schools with too much money (other than maybe taxing their endowments) and look at schools with limited endowment funds and how to improve/assist that part of the system.
- Find ways to get money and assistance to low income students – otherwise we will continue to see our system fall behind our global competition.
- Foster programs and action to improve student outcomes, especially for low income students.

What Will the Future Hold?

In the public college system in the country there will probably be tough choices to be made in the coming years. One issue will be how to manage the disparate resources that may exist between the “exclusive” public colleges versus all the others.

It seems to us that the exclusive public colleges strive to emulate the most successful private colleges in the country and in doing so may be straying from their purpose.

My wife and I were surprised when one of our children was offered a meaningful scholarship to attend a state university in South Carolina. As an-out-of-state resident it would have made the cost lower than would we would pay for a state university in our home state, Virginia. I would think the \$15,000 or so they were willing to offer would be better spent on helping a qualified in-state student who had real financial needs. I guess they view attracting qualified out-of-state students as a way to enhance their industry ranking and prestige. I am not sure over time if this best serves the needs of students in the state and its taxpayers.

In regard to the more exclusive private schools it seems that they will pretty much be self funded through their endowments. Worrying about what they charge for tuition seems a bit of a dead end. To the extent that they use their endowment funds and take advantage of tax exempt status, there should probably be a mechanism developed to tax them when it is clear the money they raise is not really supporting the mission of their non-profit status.

In 2000, Richard K. Vedder, a well-known author and member of the “*Commission on the Future of Higher Education*” (formed by DOE Secretary Spellings in 2005) wrote a book “*Can Teachers Own Their Own Schools?*” It’s an insightful very short read (56 pages). My favorite quote in the book was written by Howard Spencer during the American Common-School (Public) Movement around 1850 on his thoughts if England were to adopt a public school system. He said the following:

“We may be quite sure that a state education would be administered for the benefit of those in power rather than for the advantage of the nation.”

It does seem that wherever wealth and power accumulate, whether in the public or private sector, those in charge over time often justify how to best horde such wealth and/or power for their own self interest, rather than for the intended purpose.....

A Final Note on the Current Environment

As we are finishing up this review to publish we are seeing much press on colleges and funding issues. The excerpt below is indicative of what we will be hearing a lot about in the months to come.

Excerpt from “Colleges Lower Their Expectations for Endowments”

The Chronicle of Higher Education - October 3, 2008

Declines All Around

The recent boom times have clearly ended. Last year the average return on investment for college endowments was 17.2 percent, according to the National Association of College and University Business Officers. This year, John D. Walda, president of the organization, says he has heard that results are down for everyone, although larger endowments typically perform better.

“I expect at the end of the day we’ll find out a significant number of schools, typically those with smaller endowments, will have negative returns,” he says.

He cannot predict if the average rate of return for endowments will be negative. The last time that happened was in the 2002 fiscal year, when average returns were minus 6 percent. The year before that, investment returns were minus 3.6 percent.

Brett Hammond, chief investment strategist at the pension giant TIAA-CREF, says that although endowments are in a better position to ride out market declines because they are highly diversified, they have hefty allocations to traditional investment classes, in which they have been hurt. He, too, expects colleges to report single-digit and negative returns.

Mr. Osgood, of Grinnell, which has one the largest endowments and is known for its conservative investment strategy, believes that its returns could fall further if the market continues to drop. Its endowment is highly invested in common stock — specifically, value stocks with prices that are relatively low compared with their fundamental value — which rebound more quickly after a decline but tend to go down at a percentage that reflects the general market.

Grinnell is unusually dependent on its endowment for operating expenses — 55 percent of the budget. But a cushion to help cover day-to-day expenses is built into the 4-percent payout for capital expenditures, Mr. Osgood says. If the market continues to decline, he says, the college may delay for a few years a \$135-million plan to renovate the library.

To access the excel spreadsheet with the endowment data utilized in this review please [click here](#) or visit our website and go to the “Resources” section.

Disclaimer:

We compiled this data over the last year from the endowment database from The Chronicle of Higher Education and in the case of student enrollment, the NCES database and school websites. In many cases we had to make estimates and use school website data to arrive at our estimates. We take full responsibility for any calculation, transposition or other potential errors.