



College and University Endowments

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An endowment is...

- **A collection of funds provided by donors to secure long-term institutional strategic goals**
 - Often comprised of 100s, or even 1000s, of individual funds that range in size from below \$10,000 to over \$1 million
 - Most individual funds have a specific, **donor-directed** purpose (e.g., research, financial aid, public service)
 - Endowed funds represent the institution's promise to donors to use income and investment gains generated by their gifts to support an aspect of the university's mission, **usually into perpetuity, balancing the current and future needs of the university**
 - Low volatility over time, stable funding
 - Not designed to be “rainy day” or emergency funds

Giving, Student Aid, and Endowments

- Not all aid comes from endowments
 - Not all giving goes to endowments
- Endowments pay for more than student aid

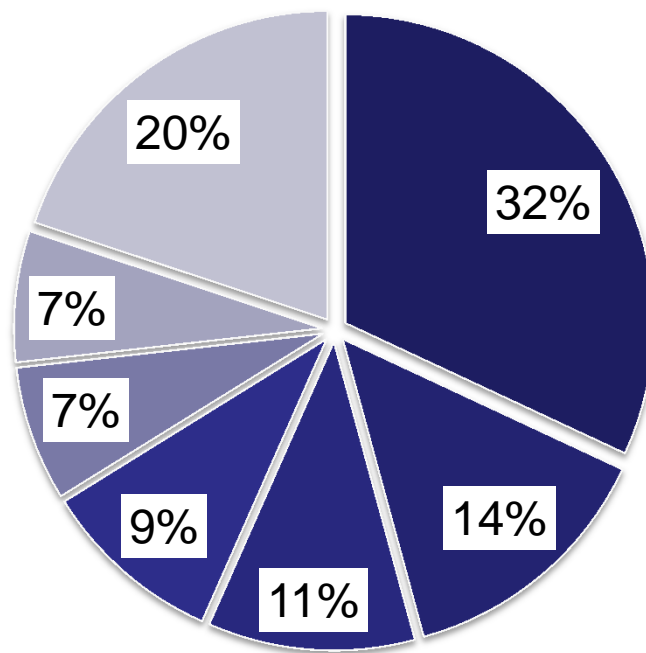
Not all aid comes from endowments

For independent colleges and universities, endowment earnings provide only a portion of support for institutional grant aid.

Other sources of aid include annual giving and other revenues.

Source: 2015 NACUBO Tuition Discounting Study, May 2016.
Data are as of the fall for each academic year.

% Aid Funded by Endowment



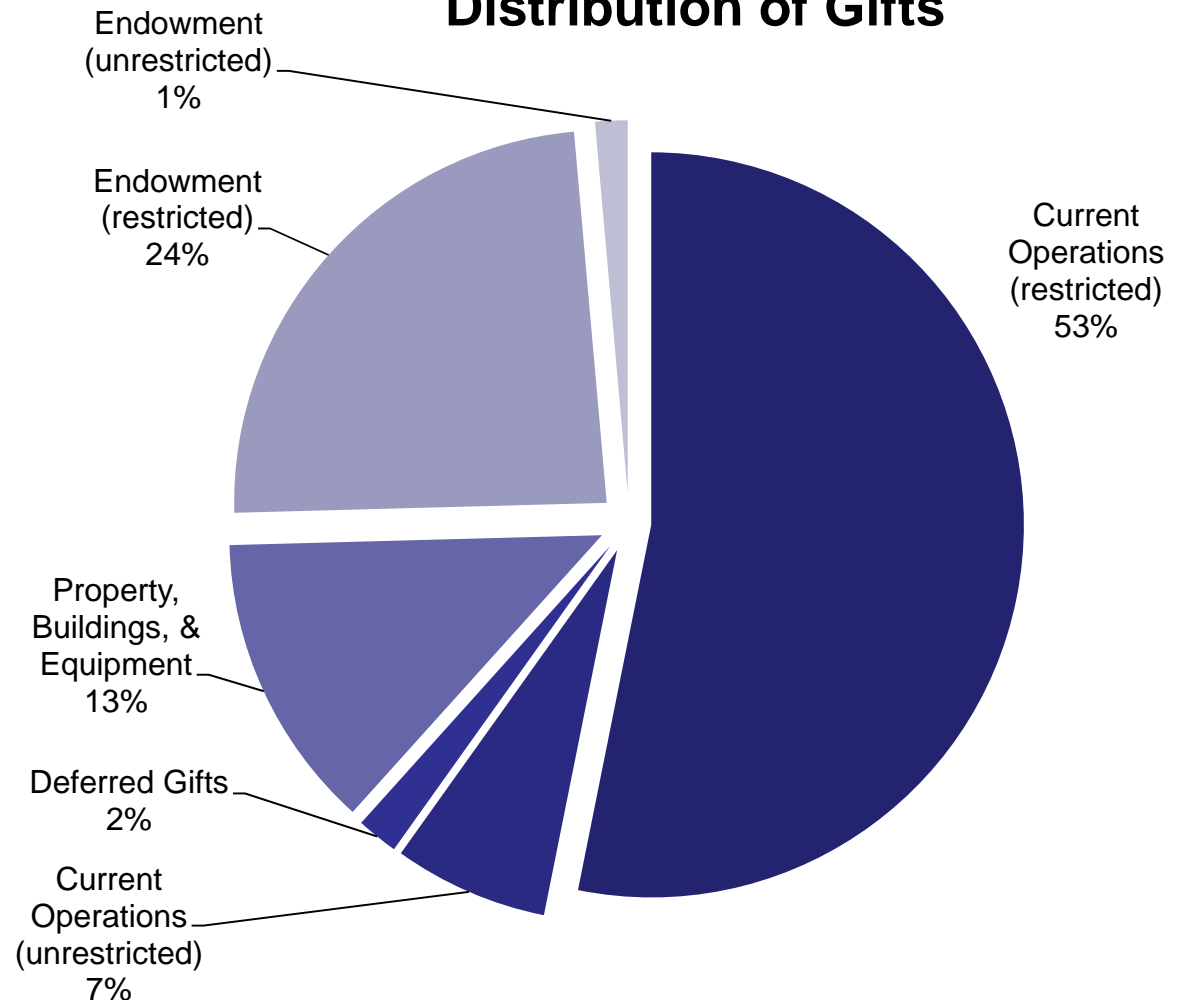
- Over \$1 billion
- \$500 million to \$1 billion
- \$100 million to \$500 billion
- \$50 million to \$100 million
- \$25 million to \$50 million
- \$25 million or less
- Unknown Endowment

Only 25% of giving went to endowments in 2014-15

Many non-profit organizations conduct, each and every year, a fundraising campaign for the purpose of raising money to assist in paying regular, ongoing expenses.

Source: 2015 Voluntary Support of Education Survey, Council for Aid to Education

Distribution of Gifts



Sources of Revenue

Operating revenue comes from a variety of sources and is different for each institution.

- State appropriations
- Tuition
- Grants and contracts
- Contributions (Annual Fund)
- Investments (Endowment)
- Auxiliaries
- Other

Where does the revenue go?

The expenses must be paid.

Technology

Supplies

**Faculty and
Staff Salaries**

Buildings

Research

**Institutional
Grant Aid**

Libraries

Athletics

**Endowments pay for
more than student aid.**

Standard Expense Categories

Instruction.

- Activities directly related to instruction, including faculty salaries and benefits, office supplies, the administration of academic departments, and the proportion of faculty salaries going to departmental research and public service.

Research.

- Sponsored or organized research, including research centers and project research.
- These costs are typically budgeted separately from other institutional spending, through special revenues restricted to these purposes.

Public service.

- Activities established to provide noninstructional services to external groups.
- These costs also are budgeted separately and include conferences, reference bureaus, cooperative extension services, and public broadcasting.

Student services.

- Noninstructional student-related activities, such as admissions, registrar services, career counseling, financial aid administration, student organizations, and intramural athletics. Costs of recruitment, for example, are typically embedded within student services.

Academic support.

- Activities that support instruction, research, and public service, including libraries, academic computing, museums, central academic administration (deans' offices), and central personnel for curriculum and course development.

Institutional support.

- General administrative services, executive management, legal and fiscal operations, public relations, and central operations for physical operation.

Scholarships and fellowships net of allowances.

- Institutional spending on scholarships and fellowships net of allowances. Does not include federal aid, tuition waivers or tuition discounts (which since 1998 have been reported as waivers). It is a residual measure that captures any remaining aid after it is applied to tuition and auxiliaries.

Plant operation and maintenance.

- Service and maintenance of the physical plant, grounds and buildings maintenance, utilities, property insurance, and similar items.

Auxiliary enterprises, hospitals and clinics, and independent and other operations.

- User fee activities that do not receive general support. Auxiliary enterprises include dormitories, bookstores, and meal services.

Donors and Institutions Enter Legally Binding Agreements

Sample Language:

1. Purpose of the Fund: The Fund has been established to support: (Include description of area of support and name of College, etc. If a scholarship, reference the specifications here and include them as Attachment A).

2. Source of the Fund: The Fund will be established with an initial gift of \$_____.

3. Duration of the Fund: The Donors intend for the Fund, including all realized and unrealized capital appreciation and depreciation generated by the Fund, to exist in perpetuity with the accumulated "Payout" being made available to support the "Purpose of the Fund" as described in Paragraph 1 above.



Uniform Prudent Management of Institutional Funds Act (UPMIFA)

Uniform state law provides fundamental rules for the investment and the expenditure of funds donated as endowments. Those rules support two general principles:

1. assets would be invested prudently in diversified investments that ***sought growth as well as income***, and
2. appreciation of assets could ***prudently be spent*** for the purposes of any endowment fund held by a charitable institution.

The Uniform Law Commission approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in 2006 and recommended it for enactment by the legislatures of the various states. UPMIFA is designed to replace the existing Uniform Management of Institutional Funds Act (UMIFA), which was approved by NCCUSL in 1972, and has since been enacted in 49 states.

Generational Equity

- Endowment managers make investment decisions that will generate income for today's students AND provide long-term growth for tomorrow's
- To meet this goal, they strive for a long-term average annual investment return of **~8%**; this long-term return goal consists of:
 - ~ **4 – 4 ½ %** for current spending (annual payout)
 - ~ **1 – 1 ½ %** for expenses & fees
 - ~ **2 – 3 %** for reinvestment (to keep pace w/ inflation)
- Managers often use the 10-year average annual return as a benchmark to meet this goal

2014-15 average 10-year annual return: 6.3%

This is below institutions' median long-term target rate.

Figure 2.2 Average One-, Three-, Five- and 10-Year Net Returns[†] for Fiscal Years 2014 and 2015

<i>numbers in percent (%)</i>	Total Institutions		Over \$1 Billion		\$501 Million-\$1 Billion		\$101-\$500 Million		\$51-\$100 Million		\$25-\$50 Million		Under \$25 Million	
	832	812	91	94	77	77	262	261	168	167	125	117	109	96
	'14	'15	'14	'15	'14	'15	'14	'15	'14	'15	'14	'15	'14	'15
Annual total net return	15.5	2.4	16.5	4.3	15.8	2.8	15.5	2.0	15.2	2.0	15.2	1.9	15.5	2.3
3-year net return	9.0	9.9	9.5	10.8	9.1	10.2	8.9	9.7	8.7	9.4	8.9	9.9	9.4	9.9
5-year net return	11.7	9.8	12.1	10.4	11.8	9.9	11.8	9.5	11.4	9.4	11.4	9.8	12.0	10.6
10-year net return	7.1	6.3	8.2	7.2	7.3	6.7	7.1	6.2	6.5	5.9	6.5	5.6	6.6	6.0

[†]net of fees

Net of fees.

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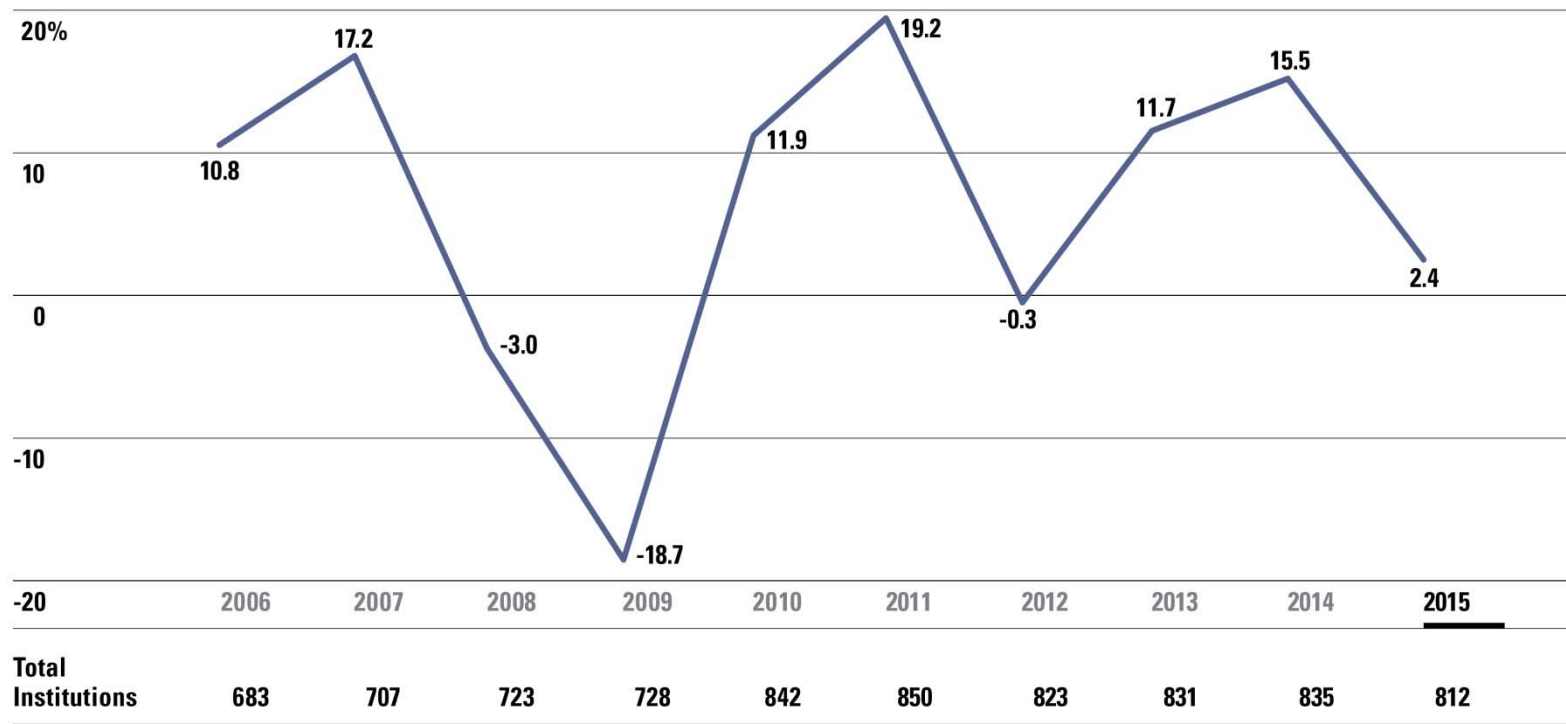
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Average Annual Net Returns*

U.S. College and University Endowments | Fiscal Years 2006 to 2015

Figure 2.1 Average Annual Total Net Returns for Total Institutions for Fiscal Years 2006-2015

numbers in percent (%)



Source: Fiscal Years 2006-2008, NACUBO Endowment Study

* Net of fees.

Source: Fiscal years 2005 – 2007, NACUBO Endowment Study; Fiscal years 2008 – 2015, NACUBO-Commonfund Study of Endowments.
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Percent of Endowments with YOY Increase in Spending Dollars

Figure 5.7 Changes to Spending Dollars for Fiscal Year 2015

<i>numbers in percent (%)</i>	Total Institutions	Over \$1 Billion	\$501 Million– \$1 Billion	\$101–\$500 Million	\$51–\$100 Million	\$25–\$50 Million	Under \$25 Million
	812	94	77	261	167	117	96
Increased spending dollars	78	83	79	82	83	68	65
<i>Median percent increase</i>	8.8	7.1	7.0	8.9	9.6	10.1	12.4
Decreased spending dollars	12	2	8	12	10	21	19
<i>Median percent decrease</i>	10.1	5.5	4.3	6.6	5.6	18.1	18.5
No change	1	0	0	♦	1	2	0
No answer/uncertain	9	15	13	6	6	9	16

♦ sample size too small to analyze

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Think about your retirement nest egg.

- Some retirement-income experts have suggested that retirees who want their savings to last 30 years ought to use an initial withdrawal rate of ~4%.
- The initial withdrawal on a \$1 million nest egg would be \$3,333 a month or \$40,000 a year.
- Assuming annual inflation of 2%, you might increase that (\$40,000) amount by 2% to \$40,800 (\$3,400 a month) the second year of retirement, \$41,600 (\$3,470 a month) the third, and so on.
- You could choose to withdraw more— 4%, 4.5%, 5%, etc. But, as your withdrawal rate rises, the likelihood of your nest egg lasting 30 or more years declines.

Higher Education Mission & Tax-exempt Purpose

In the US, in 2015:

- 1,621 Public Institutions
- 1,672 Nonprofit Institutions
- 1,334 For-profit Institutions

Permissible tax exempt purposes include religious, charitable, scientific, literary, educational, for promotion of the arts.

College and university missions are diverse— and often broad in scope. Take for example:

- Land-grant universities
 - the “Wisconsin Idea”
- Religiously affiliated institutions and theological seminaries
- Military
- Historically black colleges and universities

Meeting the needs of low-income students is a very significant charitable objective of most institutions, but it is not the only inherent charitable purpose they strive to serve.



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For more from NACUBO on endowments:
<http://tinyurl.com/js6mezx>