

COLLEGE ENDOWMENTS, COLLEGE PRICES, AND FINANCIAL AID

Statement of

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before the

**Committee on Ways and Means Committee, Subcommittee on Oversight
United States House of Representatives**

HEARING ON TAX-EXEMPT COLLEGE AND UNIVERSITY ENDOWMENTS

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*The views expressed are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

Chairman Roskam, Ranking Member Lewis, and members of the Committee, thank you for the opportunity to offer this testimony about college and university endowments. I appreciate your attention to the issues of college access and affordability.

I am a higher education economist at the Urban Institute in Washington, DC, and a former professor of economics at Skidmore College in Saratoga Springs, New York. I am also the coauthor of the College Board's annual reports *Trends in College Pricing* and *Trends in Student Aid*. The views expressed in this testimony are my own, not those of any organization with which I am affiliated, its trustees, or its funders.

I will begin by discussing some facts about the endowment assets held by colleges and universities in the United States. I will then discuss some of the evidence about college tuition prices, the factors driving them upward, and the impact on students.

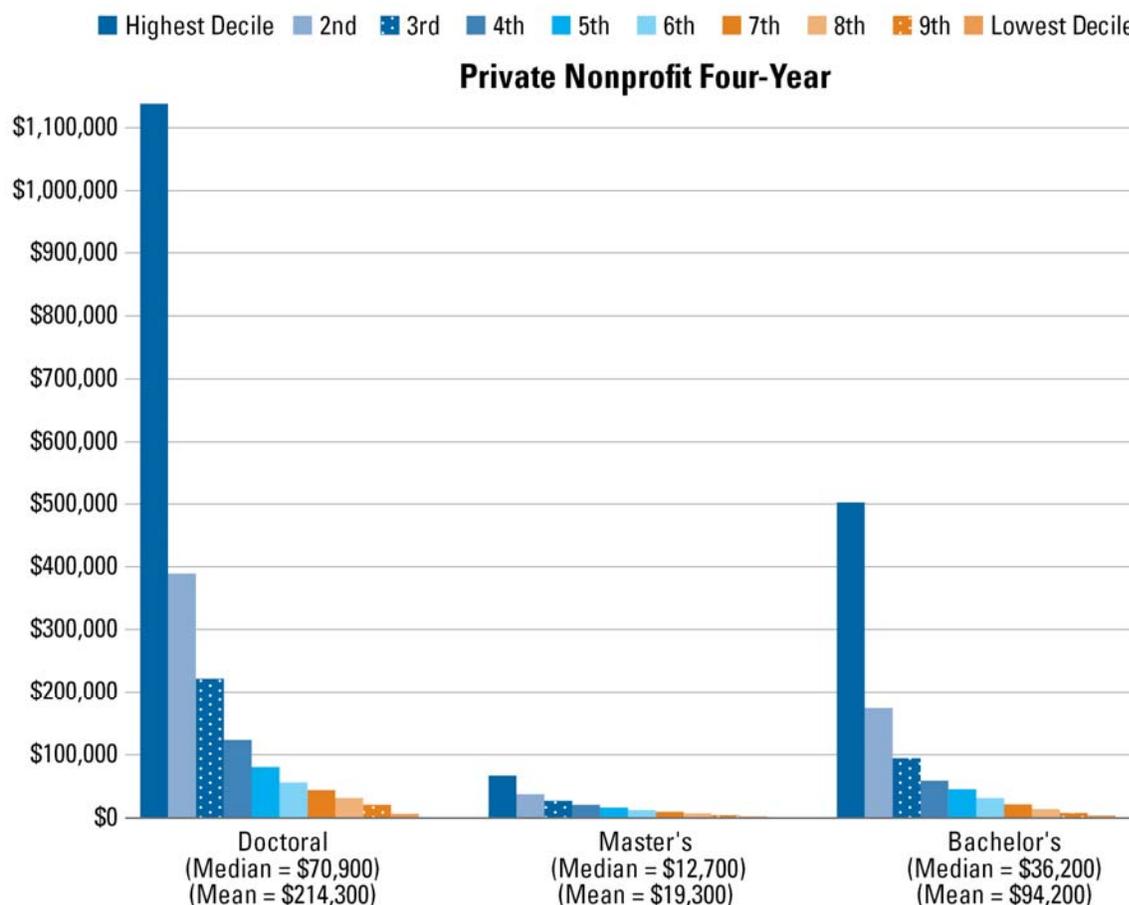
Endowments

A few colleges and universities in the United States have very large endowments that can contribute sizable amounts to their operating budgets. But this is not the case for the vast majority of postsecondary institutions in this country. Five private nonprofit research universities hold about one-third of all the endowment assets of the more than 1,600 institutions in that sector—and about one-quarter of the assets held by public and private institutions combined. In other words, a very small number of institutions have the asset levels that can make a real difference in the resources available to educate students.

Figure 1 below, from the College Board's report, *Trends in College Pricing 2015*, shows the distribution of endowment assets across private nonprofit colleges and universities. The doctoral universities in the top decile have more than \$1 million in endowment assets per student. But those in the next decile have less than half that amount. The vast majority of colleges and universities in the sector have much lower endowments. The median institution in the sector has about \$33,000 per student—an endowment that can generate less than \$2,000 per student per year to add to the budget. In the public sector, the median endowment per student is about \$8,000. Only a handful of public universities have endowments that can make a measurable difference in their spending patterns.

Appendix table 1 shows the data behind figure 1, as well as similar information for public colleges and universities.

Figure 1: Endowment Assets per Full-Time-Equivalent (FTE) Student at Private Nonprofit Four-Year Institutions by Decile, 2012–13

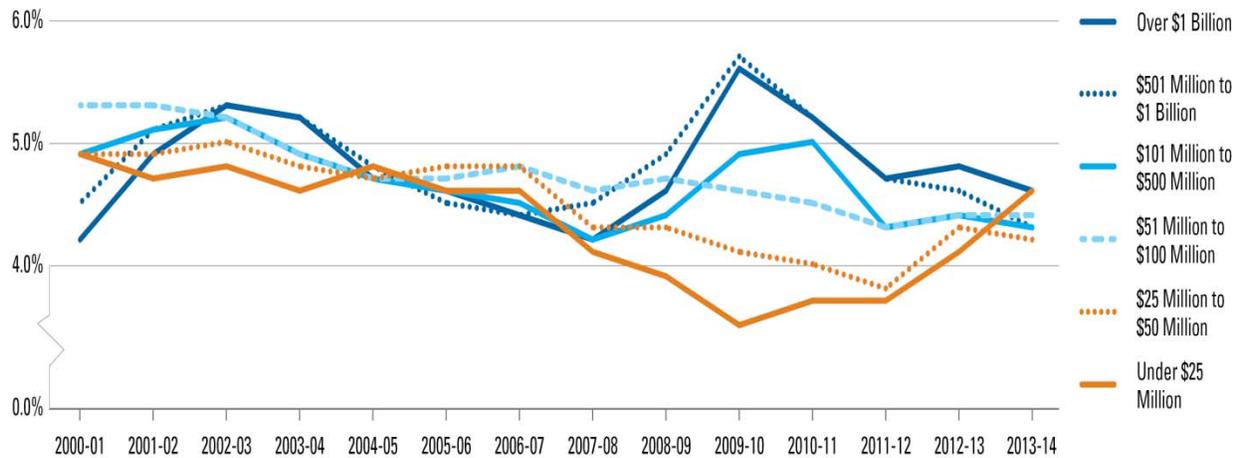


Source: Jennifer Ma et al., *Trends in College Pricing 2015* (Washington, DC: The College Board, 2016), figure 20.

Most institutions with significant endowments have rules that allow them to spend between 4 and 5 percent of the value of their endowments each year. That calculation is generally based on an average value over several years, since endowments fluctuate quite a bit along with financial markets. By law, endowment assets must be preserved, so only earnings beyond inflation are available. Many funds in the endowment are restricted and can be used only for the purposes prescribed by donors. Endowments serve a dual purpose: supplementing revenues from tuition and other sources to provide subsidies to current students and providing a sustainable financial model for the future.

During the Great Recession, when endowment values fell dramatically, the institutions with the largest endowments raised their endowment draw rates. In other words, they prevented spending from the endowment from falling as much as the value of their endowments fell. As figure 2 shows, the spending rates of institutions with large and small endowments diverged for a few years, but they have converged again as endowments have regained a significant portion of their pre-recession values.

Figure 2: Average Reported Spending Rates for College and University Endowments by Endowment Size, 2000–01 to 2013–14

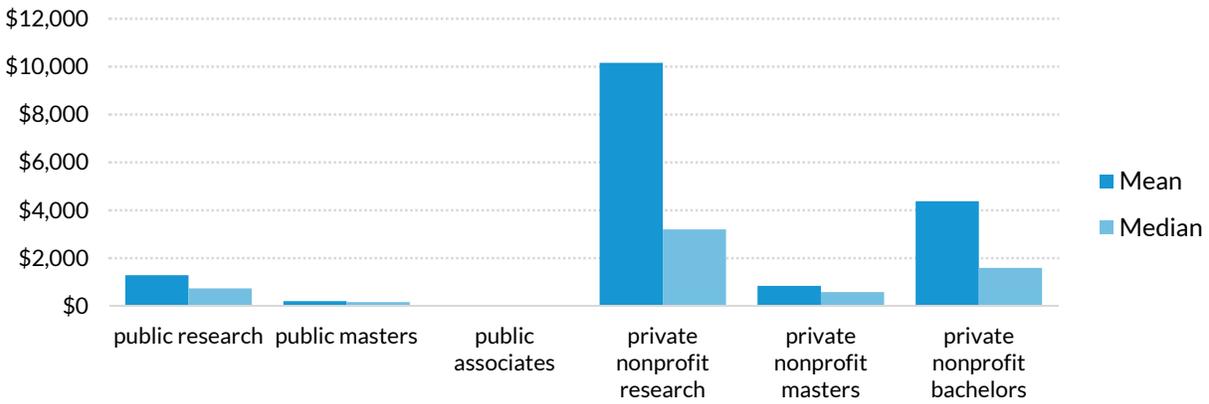


Source: Jennifer Ma et al., *Trends in College Pricing 2015* (Washington, DC: The College Board, 2015), figure 21B.

Another way of seeing the skewed distribution of endowments is to compare the incomes available to different institutions from their endowments. Aside from the difference between private nonprofit research universities and other types of institutions revealed in figure 3, the difference between the mean and the median is important. Looking at what we usually call averages—the mean, or the total endowment income divided by the number of students overall—suggests that the private nonprofit universities have an average of about \$10,000 per student in annual income from the endowment to supplement other revenues. But the median is about \$3,000. In other words, half of private nonprofit research universities have less than \$3,000 per student each year to help them meet their goals.

The key takeaway from looking at the distribution of endowments is that a few institutions have a lot of options, but very few students will be affected by changes in endowment spending. The top 10 research universities have endowment incomes averaging about \$50,000 per year per student, including both graduate and undergraduate students. But if we take out Harvard, Yale, Princeton, Stanford, and MIT, the next five average about half that much. And endowments diminish very quickly as we move down the list. The top 10 research universities enroll about 111,000 students—less than 1 percent of the 15 million full-time-equivalent postsecondary students in the nation

Figure 3: Average Available Income from Endowments, 2014



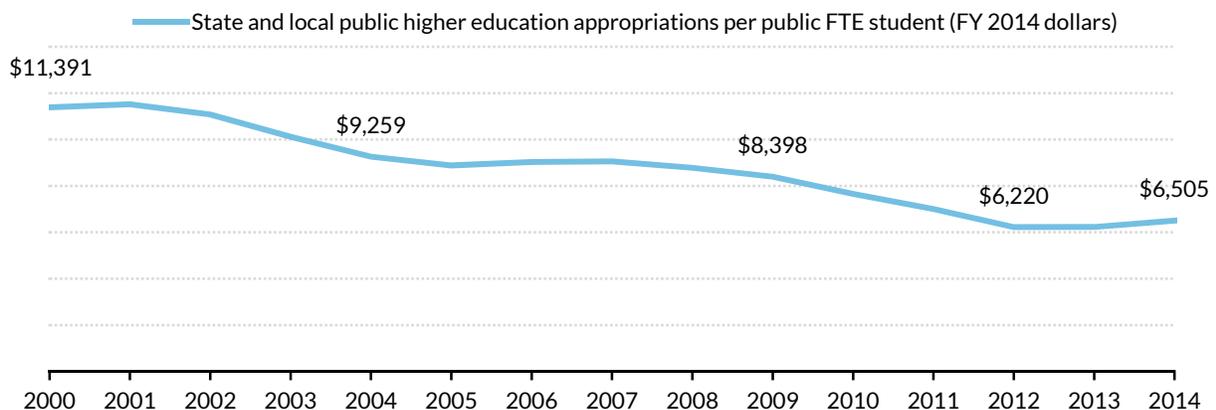
Source: The Urban Institute, data from U.S. Department of Education, Integrate Postsecondary Education Data System.

Why Is Tuition Rising So Rapidly?

No one is happy about how fast tuition and fees are rising at colleges around the country. But there is a lot of misunderstanding that can interfere with our ability to address the issue. First, it is critical to distinguish between public and private colleges. Public colleges depend on state and local governments for a portion of their funding. There has been a long-term downward trend in per student funding from that source. The \$6,505 per student in fiscal year 2014 was almost 30 percent lower than the \$9,529 (in 2014 dollars) 10 years earlier (figure 4). Some of the reduction arises from declining state dollars for higher education during the recession, but much of it is the result of rapidly rising enrollments.

Circumstances differ quite dramatically across states, but the national averages point to a very real problem with a major impact on public college tuition levels. The issue is much less one of rising institutional expenditures and much more one of the percentage of those expenditures covered by taxpayers in general as opposed to students and families.

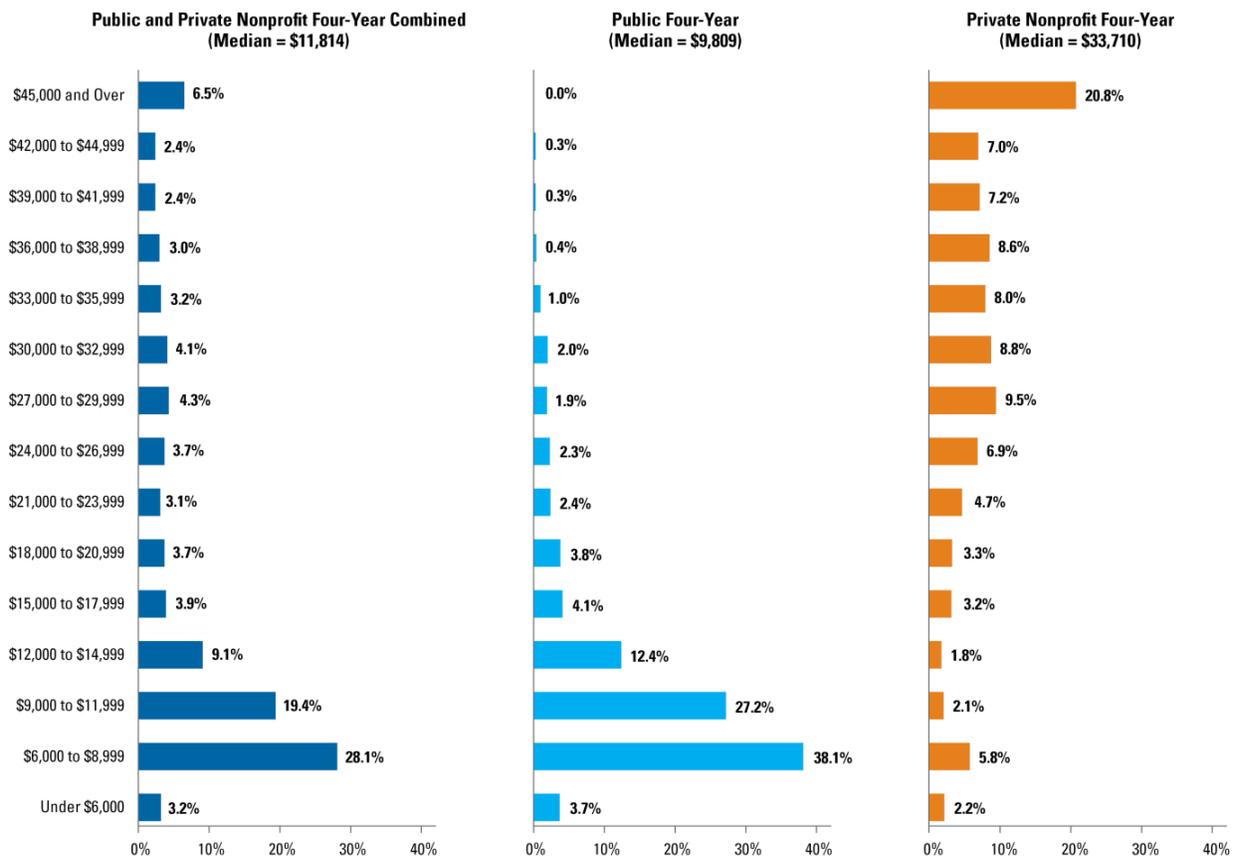
Figure 4: State and Local Appropriations for Public Higher Education in 2014 Dollars



Source: The Urban Institute, calculations based on data from State Higher Education Executive Officers.

As large as the variation in prices at public colleges is, the variation at private nonprofit colleges is much greater. According to the College Board, 65 percent of full-time students at public four-year colleges in 2015–16 faced sticker prices between \$6,000 and \$12,000 per year (figure 5). But about 20 percent of those in private nonprofit college faced sticker prices of \$21,000 or lower while, at the other end of the spectrum, about 20 percent attended colleges charging \$45,000 or more. Notably, despite public impressions to the contrary, only about 7 percent of full-time four-year college students attended institutions with sticker prices this high.

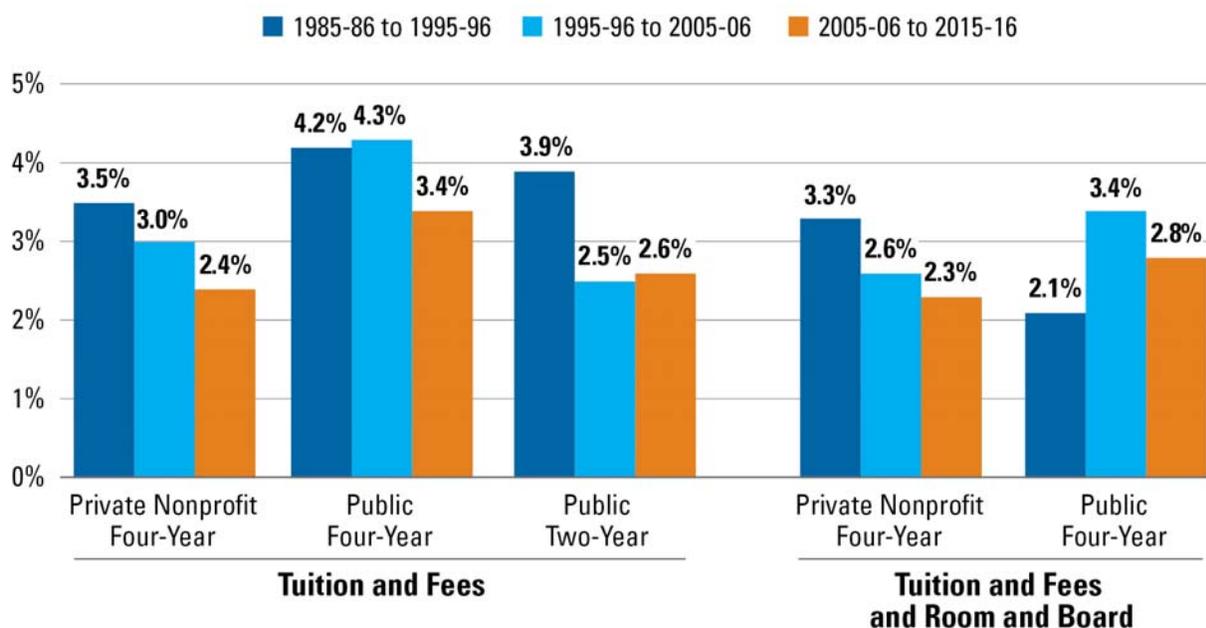
Figure 5: Distribution of Full-Time Undergraduates at Four-Year Institutions by Published Tuition and Fees, 2015–16



Source: Jennifer Ma et al., *Trends in College Pricing 2015* (Washington, DC: The College Board, 2015), figure 3.

Rising college prices are not a new phenomenon. In fact, prices rose less rapidly over the decade from 2005–06 to 2015–16 than in previous decades (figure 6). This does not mean the price increases are not a problem. It does mean it is reasonable to look beyond recent patterns to understand them.

Figure 6: Average Annual Percentage Increase in Inflation-Adjusted Published Prices by Decade, 1985–86 to 2015–16



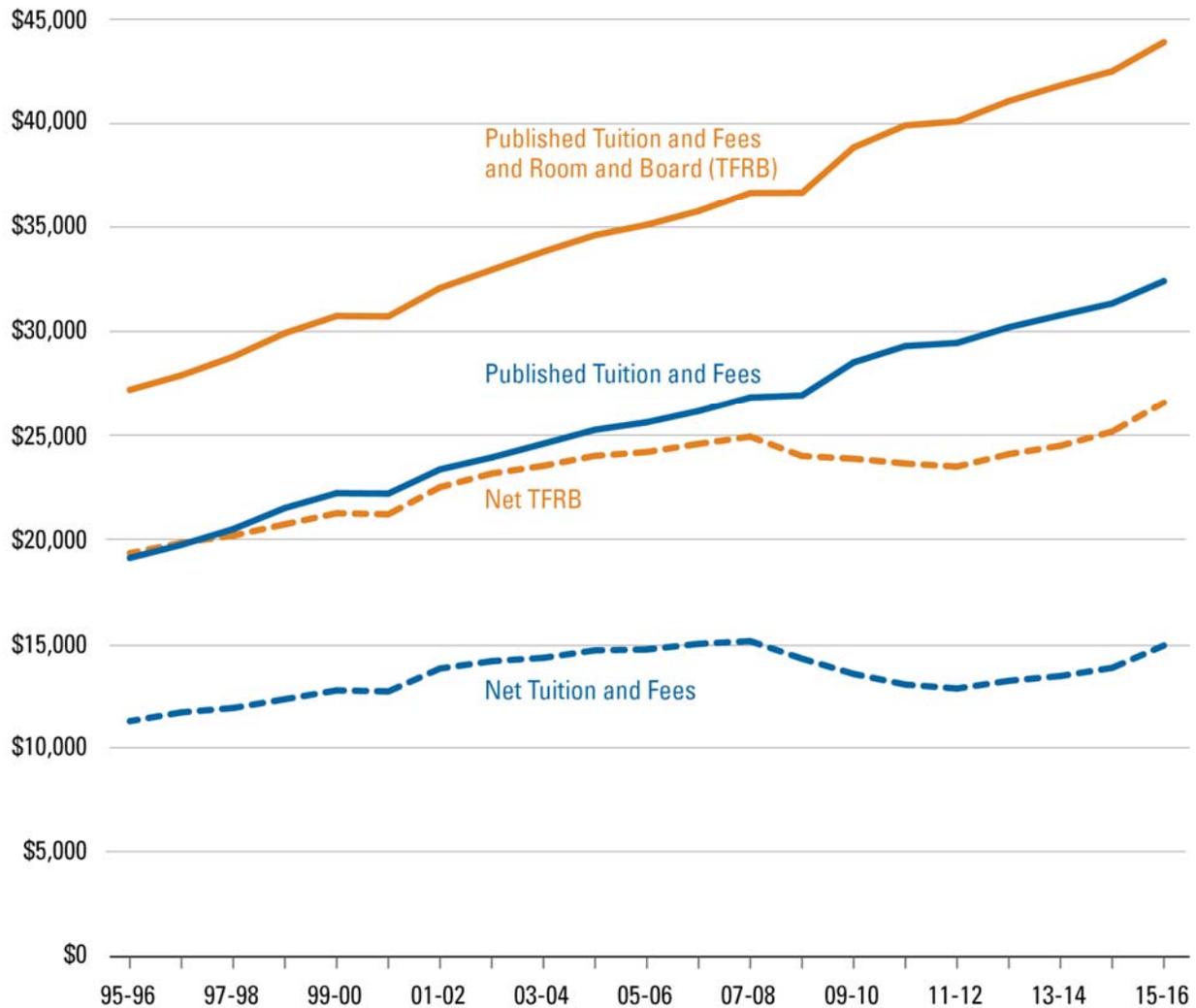
Source: Jennifer Ma et al., *Trends in College Pricing 2015* (Washington, DC: The College Board, 2015), figure 5.

Even more important to understanding the impact of rising tuition on students is clarifying the difference between sticker prices and the net prices students pay after taking financial aid into consideration. The revenues institutions take in from tuition are much lower than multiplying the number of students by the published prices might suggest. Both public and private nonprofit four-year institutions discount their prices quite a bit for many students. Between 2003–04 and 2013–14, the share of first-time full-time students at public research universities receiving institutional grant aid increased from 36 percent to 52 percent. The increase at private research universities was from 64 percent to 71 percent. These private institutions awarded more than \$16,000 per student in discounts in 2013–14—lowering the average net tuition price they were actually charging to \$16,000 less than the published price.¹

These institutional discounting practices make for a very complicated pricing scheme that is difficult for students, families, policymakers, and almost everyone else to understand. It might be simpler to charge everyone the same price and publicize that price. And some private colleges do give discounts to every student. But the current pricing model allows institutions to charge different prices to different students. Although some of the aid is based on factors other than financial need, lower-income students pay much lower average net prices than more affluent students. If all students were charged the same price, that price might be lower than the current sticker price, but it would make it more difficult than it already is for institutions to provide meaningful access to the students with the most limited financial means.

¹ Based on data from the Department of Education’s Integrated Postsecondary Education Data System (IPEDS).

Figure 7: Average Published and Net Prices in 2015 Dollars, Full-Time Undergraduates, Private Nonprofit Four-Year Institutions, 1995–96 to 2015–16



Source: Jennifer Ma et al., *Trends in College Pricing 2015* (Washington, DC: The College Board, 2015), figure 13.

As figure 7 shows, the combination of institutional discounts, federal grant aid, and aid from states, private sources, and employers makes the path of the net prices students have paid over time to attend private nonprofit colleges and universities look quite different from the path of published prices. The increases in Pell grants in 2009–10 and 2010–11 dramatically affected the prices students paid and the educational opportunities available to them. The trend in net prices at private colleges has turned upward again, but in 2014–15, when the average published tuition and fees at private four-year nonprofit institutions was \$32,400, the average price students paid to enroll in these institutions, after taking grant aid from all sources into consideration, was less than \$15,000.

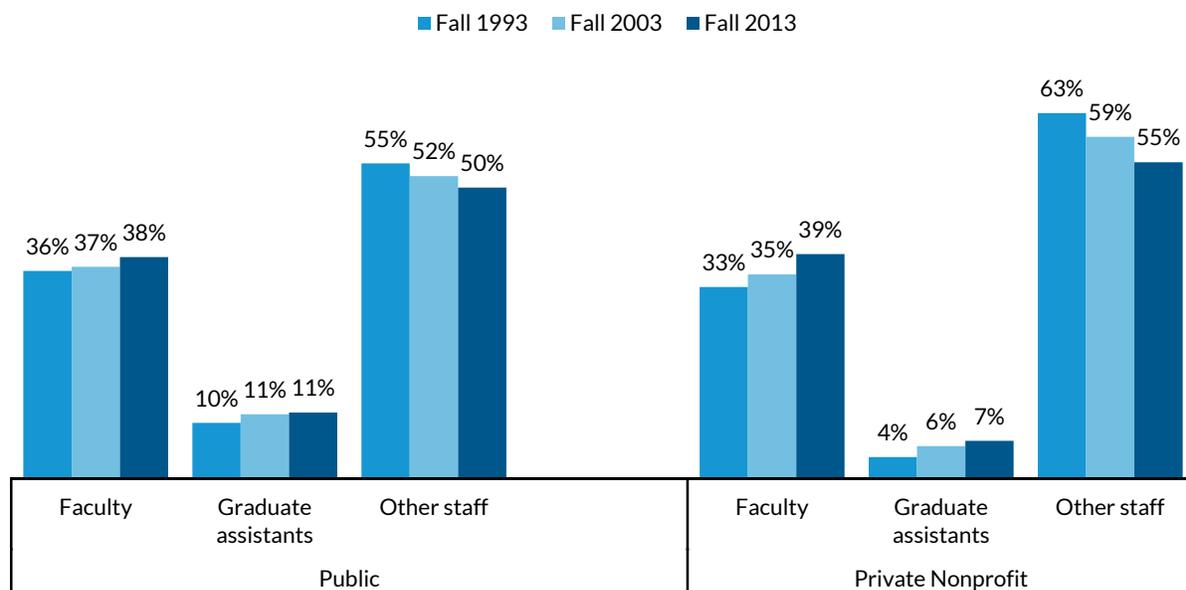
In 2014–15, undergraduate students received about \$45 billion in federal grant aid (including veterans’ benefits) and about \$40 billion in institutional grant aid. There has been considerable discussion of the impact of federal grant aid on the prices colleges and universities charge. But the empirical evidence

suggests that outside the for-profit sector, federal grant aid does not explain much about rising prices. Most important, the availability of that grant aid makes it possible for millions of students to go to college.

Some institutions have announced cuts in their published tuition prices, but cuts frequently involve simultaneous reductions in student aid, so students don't necessarily pay any less after the price reductions than before. If institutions increase their spending on financial aid, they are by definition redirecting funds from other sources. For some of the wealthier institutions, this might just mean slower endowment growth. But at most institutions it is more likely to mean some combination of higher tuition prices to increase revenues and reduced spending on maintenance of plant and equipment, faculty salaries, science labs, or curricular innovation. Most of us might be happy to hear that the trade-off is between financial aid and expanded sports facilities, fancier dormitories, or other apparent luxuries. But the reality is that when students choose their colleges, those who have options and are not limited to the local public institution tend to place disproportionate weight on amenities. So it can be counterproductive for institutions to stand on principle and focus only on investments that will have the largest impact on educational opportunities.

Some of the common wisdom about increased spending on campuses is misleading and might suggest easier fixes than actually exist. For example, it is certainly true that professional staff engaged in computer services, academic support, and related areas have replaced lower-paid support staff over time. But in terms of numbers of employees, the percentage who are not instructors has, as figure 8 shows, actually been declining.

Figure 8: Distribution of Full-Time-Equivalent Staff at Postsecondary Institutions, Fall 1993 to Fall 2013



Source: NCES, *Digest of Education Statistics 2015*, table 314.10.

Student Debt

Concerns over student debt are driving much of the conversation about college prices and institutional spending policies. Student debt is an important and misunderstood issue. My recent book, *Student Debt: Rhetoric and Realities of Higher Education Financing* from Palgrave Macmillan, provides detailed data on the issue, as well as analysis of both the real and perceived problems and of potential policy solutions.

In brief, in considering policies to address issues of college affordability, it is important to be aware of some of the less-known realities of student borrowing:

- Only about 10 percent of students who borrow for undergraduate education incur as much as \$40,000 in debt. Forty-three percent of graduate borrowers accumulate debts this large.
- Almost half of outstanding student debt is held by households in the top quarter of the income distribution. This is not surprising since people who were in college or graduate school long enough to incur significant debt tend to have relatively high incomes.
- Student loan default rates are highest on small debts and lowest on large debts. Borrowers who did not complete degrees or certificates default at almost three times the rate of those who did complete credentials.
- Older students, those who enroll in for-profit colleges, and those who take longer to finish their programs are more likely than others to accumulate high levels of debt.

Conclusion

The Committee should be commended for its investigation into the factors contributing to increases in college prices, the impact on students, and potential solutions. The federal government certainly has responsibility for ensuring that financial barriers do not prevent individuals from investing in themselves, benefiting from the outstanding U.S. higher education system, and completing postsecondary credentials. But the system is very complicated and diverse. A small number of very visible institutions educating a tiny fraction of postsecondary students have more than ample resources. Most of these institutions do make considerable efforts to enroll and subsidize low- and moderate-income students. But they could always do more.

Unfortunately, the vast majority of colleges and universities are not so well resourced. There is always room for efficiency improvements, but sharp declines in state funding for public institutions and strained economic circumstances for most of the non-elite private nonprofits explain much of the pressure on tuitions and limit how well these colleges and universities can both reduce costs and provide high-quality educational experiences to a diverse student body.

Policies for increasing educational opportunity should focus on affordability, but they should also focus on ensuring that institutions have the necessary resources to provide educational experiences that will enrich students' lives.

Appendix Table 1: Endowment Assets per Full-Time-Equivalent Student at Four-Year Colleges and Universities, 2012-13

Private nonprofit four-year decile	Doctoral (median = \$70,900) (mean = \$214,300)	Master's (median = \$12,700) (mean = \$19,300)	Bachelor's (median = \$36,200) (mean = \$94,200)
Highest decile	\$1,137,900	\$65,600	\$501,500
2nd	\$388,000	\$36,100	\$172,500
3rd	\$220,300	\$25,800	\$93,000
4th	\$122,000	\$19,500	\$57,700
5th	\$79,100	\$15,100	\$44,100
6th	\$54,600	\$11,400	\$30,000
7th	\$42,700	\$8,400	\$20,200
8th	\$30,200	\$6,100	\$12,500
9th	\$19,600	\$3,200	\$6,500
Lowest decile	\$5,200	\$1,300	\$2,800
Public four-year decile	Doctoral (median = \$16,600) (mean = \$28,000)	Master's (median = \$3,300) (mean = \$4,200)	Bachelor's (median = \$1,600) (mean = \$5,200)
Highest decile	\$112,100	\$12,800	\$27,500
2nd	\$52,700	\$6,400	\$7,600
3rd	\$35,500	\$5,000	\$4,600
4th	\$25,000	\$4,200	\$2,700
5th	\$18,900	\$3,600	\$1,800
6th	\$14,100	\$3,000	\$1,500
7th	\$9,500	\$2,400	\$1,100
8th	\$7,000	\$1,900	\$800
9th	\$4,400	\$1,300	\$500
Lowest decile	\$2,700	\$700	\$100

Source: Jennifer Ma et al., *Trends in College Pricing 2015* (Washington, DC: The College Board, 2015).