



# Understanding Endowments

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**At the end of academic year 2015–16, colleges and universities in the United States held endowment assets totaling about \$532 billion (table 1). More than half of these assets belonged to 105 private nonprofit research universities. The 11 wealthiest private research universities held 40 percent of the assets in that sector.**

Endowments provide income that supplements tuition and fees, state appropriations, and other funding sources to support the education of undergraduate and graduate students, as well as research, public service, and other institutional activities. Endowments provide a cushion that protects institutional budgets from cyclical pressures, unanticipated changes in enrollments, and other temporary revenue disruptions.

When measuring institutional strength, it is best to examine endowment per student rather than total endowment dollars (figure 1). These figures must be interpreted with caution because they do not distinguish between undergraduate and graduate students, and differences across institutions may be misleading given the differences in institutional missions. Undergraduate colleges use almost all of the draw from their endowments (the funds added to their annual budgets from this source) to support undergraduate education, whereas research universities use the funds to support a broader range of activities.

TABLE 1

**Total Endowment Assets by Sector***End of 2015-16*

	Total endowment assets (billions of dollars)	Share of total
<b>Private</b>	\$393	74%
Research	\$289	54%
Master's	\$34	6%
Bachelor's	\$67	13%
<b>Public</b>	\$140	26%
Research	\$127	24%
Master's	\$12	2%
<b>Total</b>	<b>\$532</b>	<b>100%</b>

Source: Urban Institute analysis of Integrated Postsecondary Education Data System data.

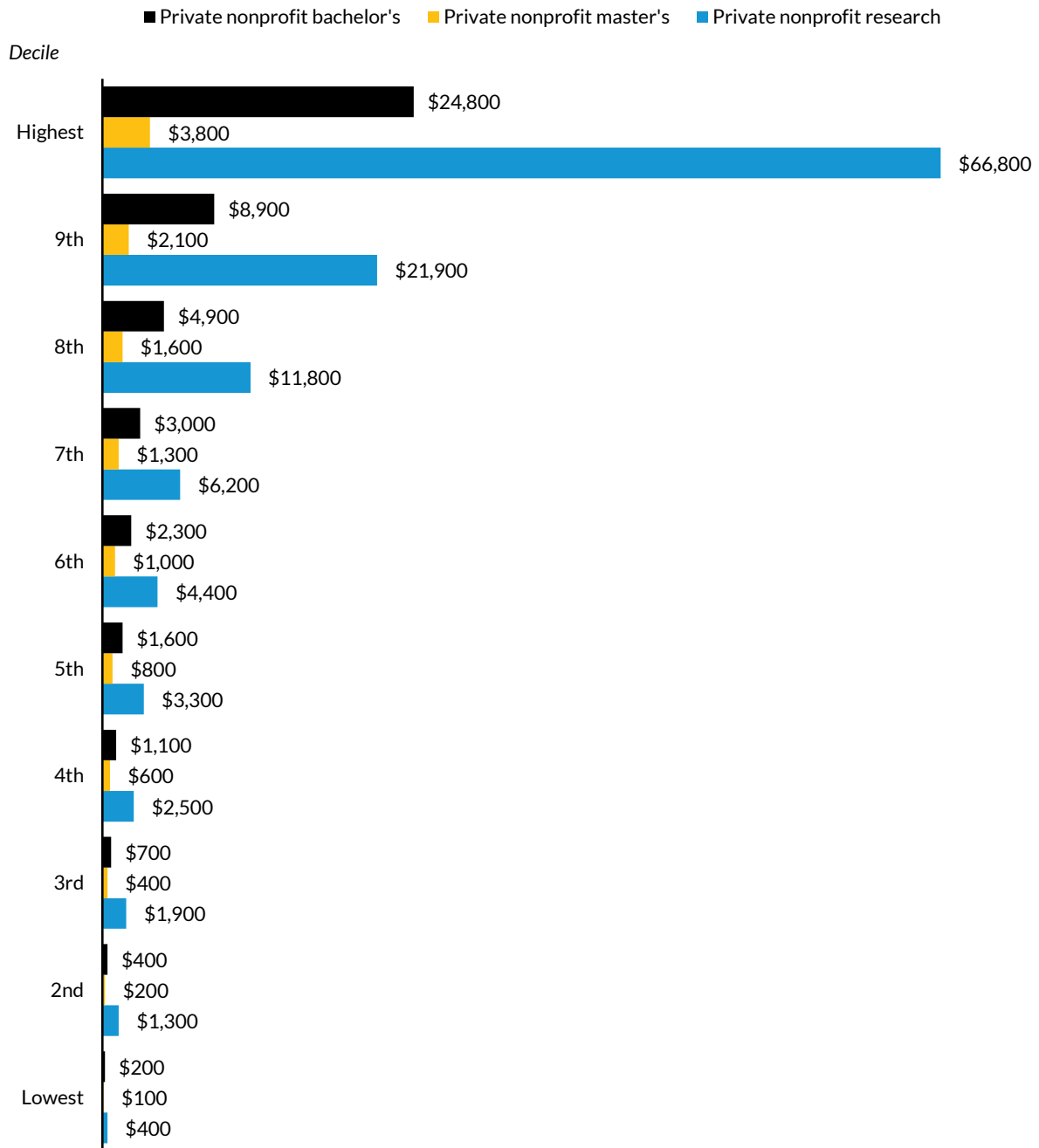
The concentration of endowment assets at a relatively small number of institutions means that the vast majority of colleges and universities cannot count on this source of income to provide significant support for their operations.

Based on typical annual spending rates of about 4.5 percent of the value of the endowment, the endowments of the 11 wealthiest private research universities, enrolling 10 percent of students in the sector, provide an average of \$66,800 per student per year, more than the average published tuition and fee price. But the institutions with the lowest endowments, where half of this sector's students are enrolled, average less than \$2,000 per student in income to the annual budget from this source. Endowment wealth at private bachelor's colleges is similarly skewed. At the master's universities, where there is much less wealth and the gaps are smaller, average endowment income in the top 10 percent is still almost nine times the average for the bottom half.

The endowments of the 10 wealthiest public research universities, enrolling 10 percent of students in the sector, provide about \$6,200 per student per year. Those in the lower half of the distribution, where 50 percent of this sector's students are enrolled, have on average about \$400 per year per student to spend from this source.

FIGURE 1

Average Estimated Endowment Draw per FTE Student, Private Nonprofit Colleges and Universities, 2015-16



Source: Urban Institute analysis of Integrated Postsecondary Education Data System data.

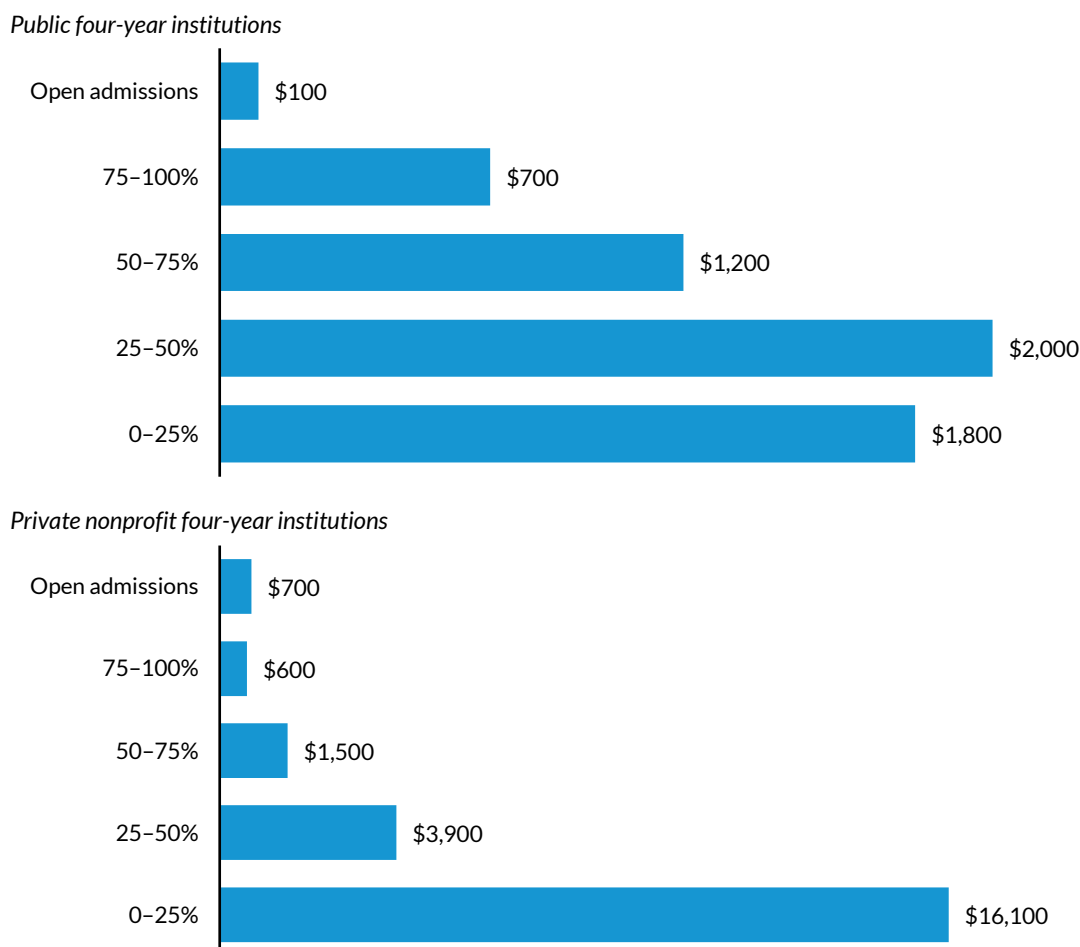
Notes: Income is calculated as 4.5 percent of the value of the endowment at the end of the fiscal year and represents funds added to the annual budget, not total income generated by the endowment. FTE = full-time equivalent.

# Selectivity

In both public and private institutions, endowment wealth is highly correlated with admissions selectivity (figure 2). Average estimated endowment spending per student ranges from \$100 at open-admission public four-year institutions to \$1,800 per student at those accepting a quarter or less of their applicants.

At private nonprofit colleges and universities, the range of average endowment spending per student is from \$700 per student at open-admission institutions to \$16,100 at those accepting a quarter or less of their applicants. Private institutions admitting 50 to 75 percent of their applicants have only about 10 percent as much income from endowments as the most selective institutions.

**FIGURE 2**  
**Average Estimated Endowment Draw per FTE Student by Institution Selectivity, FY 2015–16**



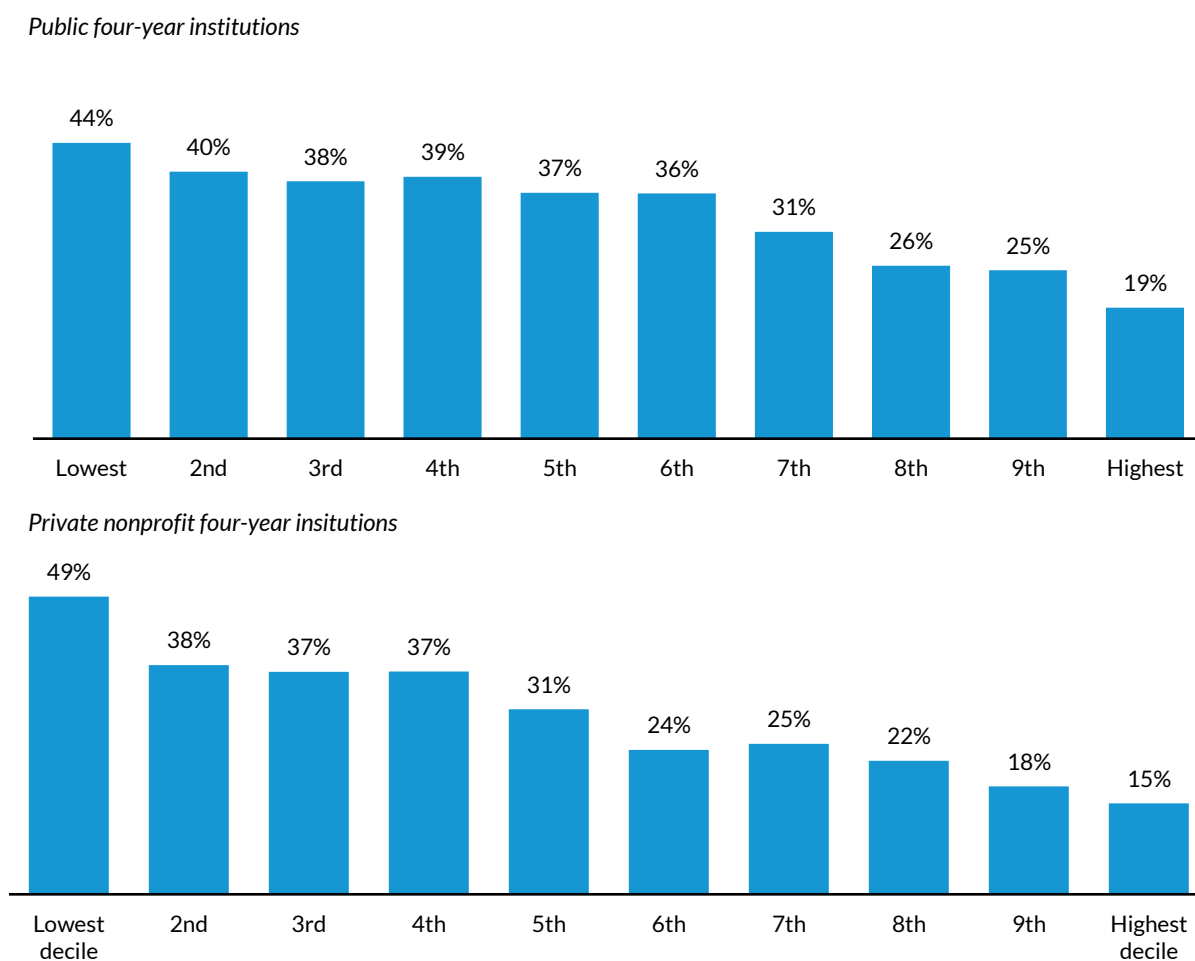
**Source:** Urban Institute analysis of Integrated Postsecondary Education Data System data.

**Notes:** Income is calculated as 4.5 percent of the value of the endowment at the end of the fiscal year and represents funds added to the annual budget, not total income generated by the endowment. FTE = full-time equivalent.

# Pell Grant Recipients

The number of Pell grant recipients can provide an approximation of the share of low-income students at an institution (figure 3). International students and undocumented students are not eligible for federal aid and would thus be unaccounted for in this measure. In addition, although many Pell grant recipients live below the poverty level, others are from households with incomes two or two and a half time the poverty level, so this is not a perfect measure of the income distribution of the student body.

**FIGURE 3**  
**Share of Students Receiving Pell Grants, by Deciles of Endowment Assets per Student**



Source: Urban Institute analysis of Integrated Postsecondary Education Data System data.

In both the public and private sectors, well-endowed institutions enroll much smaller shares of Pell recipients than less-affluent institutions. In the private sector, nearly half of students at institutions in the lowest decile based on endowment per student receive Pell grants. In contrast, 15 percent of

students at the wealthiest colleges and universities are in this low-income population. The pattern is the same at public four-year institutions, though the range is smaller.

## Net Price

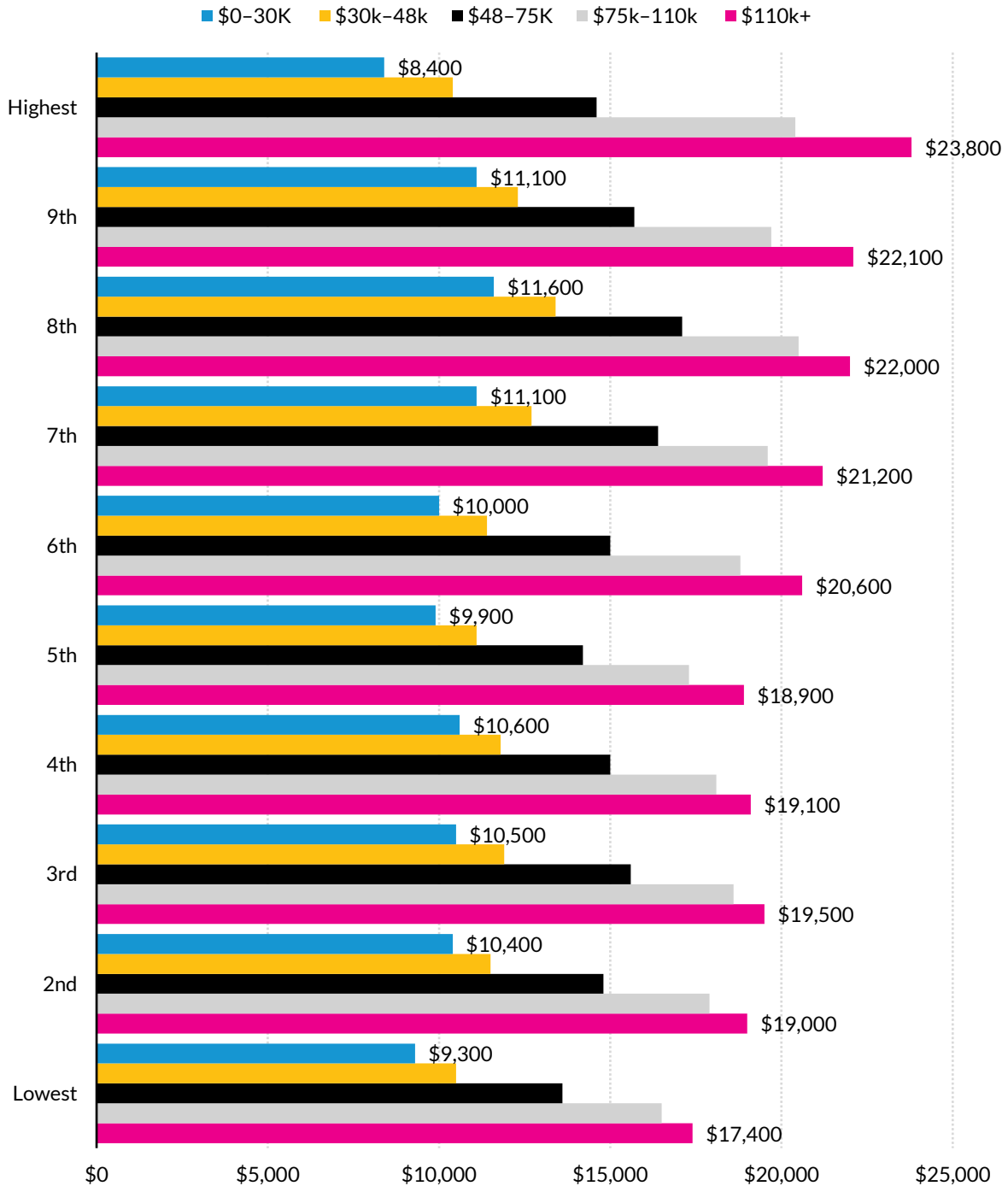
The relatively low share of Pell recipients at the best-endowed colleges and universities is not a result of the prices they charge low-income students. According to federal data that include only recipients of federal financial aid, in the public four-year sector, the institutions enrolling the 20 percent of students benefiting from the highest endowments per student charge higher net prices to students from households with incomes above \$110,000 than do less well-endowed institutions. In 2015–16, net prices for this high-income group ranged from \$17,400 in the lowest decile to \$23,800 in the highest decile.

But the wealthier institutions provide larger amounts of institutional grant aid to students from households with incomes below \$30,000. These households paid the lowest average net price—\$8,400—at the wealthiest public institutions, where net price for the lowest-income students was just 35 percent of the average net price for the highest-income group. Outside of the top endowment decile in the public sector, low-income students paid about half as much as those in the top income group (figure 4).

The same pattern is present for low-income students at private institutions (figure 5). On average, at private nonprofit four-year institutions, high-endowment schools charge very different net prices to low-income and high-income students. High-income students at the wealthiest schools on average pay over \$40,000; the lowest-income students at the same institutions are paying an average of less than \$7,000. The low-income students at the schools with the largest endowments per student pay an average net price that is one third of the net price of students in schools with the smallest endowments. In stark contrast, the students from high-income families pay 62 percent more at the schools with the largest endowments.

FIGURE 4

Average Net Price by Family Income and Decile of Endowment per FTE Students, Public Four-Year Institutions 2015-16

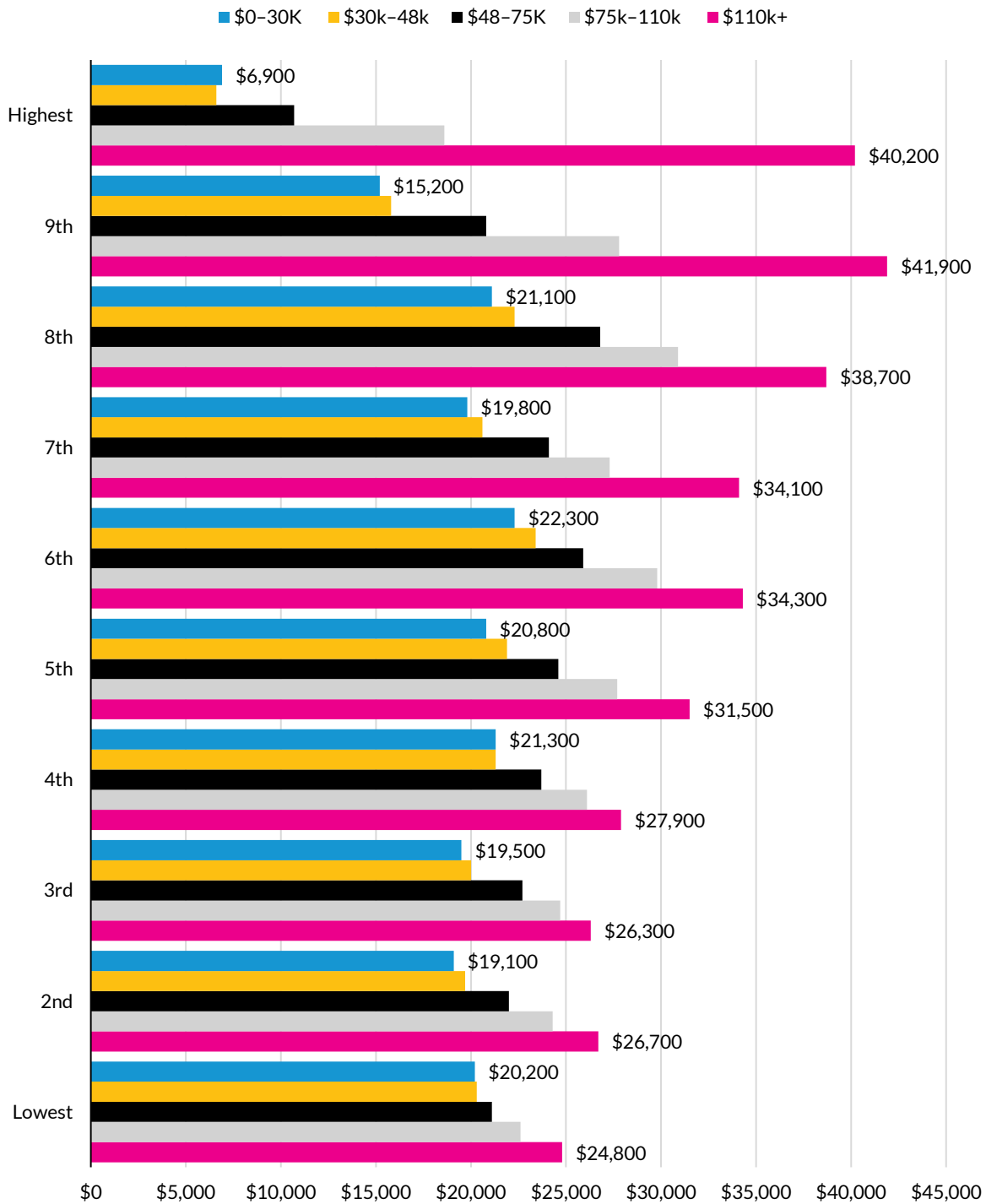


Source: Urban Institute analysis of Integrated Postsecondary Education Data System data.

Notes: Net price data include only full-time first-time students receiving federal student aid. FTE = full-time equivalent.

FIGURE 5

Average Net Price by Family Income and Decile of Endowment per FTE, Private Nonprofit Four-Year Institutions, 2015–16



Source: Urban Institute analysis of Integrated Postsecondary Education Data System data.

Notes: Net price data include only full-time first-time students receiving federal student aid. FTE = full-time equivalent.



## Conclusion

The large endowments of a few colleges and universities get a lot of attention. Recent federal tax legislation includes a new tax on the incomes from the endowments of 25 to 30 private nonprofit colleges and universities. These wealthy institutions enroll fewer than 150,000 of the 4 million students in the private nonprofit sector and 20 million postsecondary students overall.

Unfortunately, relatively few low-income students are enrolled at institutions with large endowments. In both the public and private nonprofit sectors, the higher the endowment income per student at a college or university, the lower the share of its student body receiving federal Pell grants. However, the high-endowment schools use some of their wealth to reduce the prices they charge low-income students. This small share of low-income students who attend the best-endowed institutions, which are more selective in admissions than those with fewer resources, benefit both from the opportunities offered and from considerably lower net tuition prices than they would pay elsewhere.

Higher education in the US would go further toward reducing inequality of opportunity if more students from low-income backgrounds could attend the colleges and universities with the most resources and if more institutions had the resources required to provide strong educational opportunities at moderate prices to students of limited means.

## About the Authors



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