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Statement of Sen. Chuck Grassley,  
Roundtable, “Maximizing the Use of Endowment Funds and Making Higher Education More  
Affordable,” Monday, September 8, 2008

Let me first thank Congressman Welch for chairing this roundtable discussion with me. College accessibility and affordability is a concern for those on both sides of the aisle, so I am happy to be working with him and Senator Baucus on this very important issue. In addition, this discussion is a continuation of the Finance Committee’s oversight of tax- exempt organizations and the adequacy of the tax laws that apply to them. The Committee’s review and legislative work in this area started in 2001 with the American Red Cross after 9-11, and has included The Nature Conservancy, United Way, American University, supporting organizations, donor- advised funds, ministries and nonprofit hospitals. I also want to thank all of the panelists seated around this table for their participation today. Before we get started, I would like to invite all of the participants to introduce themselves and describe their affiliation. We are fortunate to have such a diverse group of experts participating in this discussion today.

In recent weeks, college campuses once again became overrun with students, both new and returning. Many of the students, and their families, are weighed down with the accompanying bills for tuition, room, board and other miscellaneous fees. The Congressional Research Service reports that, on the basis of mean household income of a household in the bottom fifth of the population, the price of college in 2005 was over 70 percent of the household’s income. While some students received grants and scholarships, the majority were required to take out loans to finance their education.

CRS states, that according to the College Board’s 2007 *Trends in Aid* report, private loans grew by 989 percent while private grants grew only by 206 percent in the past decade. NACUBO’s 2007 endowment survey of 785 institutions indicated a one-year average rate of return of 17.2 percent for endowments while the average annual calculated spending rate from these endowments was 4.6 percent in fiscal year 2007. This rate of return is admirable, given the sluggish economy. It will be interesting to see if this trend continues when the new numbers come out this fall.

The majority, if not all, of the colleges and universities participating in NACUBO’s survey are tax- exempt – either public, government institutions, or private, not-for-profit institutions. These institutions do not pay taxes on their net operating income or on the investment income earned within their endowment funds. These subsidies alone cost taxpayers billions of dollars. These institutions are also able to raise monies by issuing tax- exempt bonds and by soliciting tax-

deductible contributions. Students attending these institutions, and their families, are also eligible for deductions and various tax credits against their income tax liabilities. The Joint Committee on Taxation estimates, for fiscal year 2007, the cost of these tax benefits and incentives for individuals only to be over \$17 billion. This chart lists the costs of each of these benefits.

In addition to these tax benefits, many of these institutions are eligible for and receive numerous federal grants. Given the impressive investment returns of college endowment funds, even in years of economic downturn and as tuition has steadily increased, Congress would be remiss if it didn't question what benefits tax-exempt colleges and universities provide in return for all of the federal benefits they receive.

Since I believe that endowment funds are comparable to private foundations, I would like to provide a brief history of the payout requirement for private foundations, as reported in a 2005 Joint Committee on Taxation publication that chronicles the history of tax exemption for charities and other organizations.

First, the Revenue Act of 1950 stripped certain organizations of their tax-exempt status for "unreasonable income accumulations." This was followed by the 1954 House "Reece Committee" report which found that foundations were rapidly increasing in number, and that the increase was due to the tax-favored status of foundations and not charitable intent and therefore recommended a mandatory distribution of income.

In the 1960s, Congressman Wright Patman issued a series of reports, one of which included recommendations to limit foundation life to 25 years and to apply the corporate accumulated earnings tax to certain foundations. Then, in 1965, in response to requests by the Ways and Means and Senate Finance Committees, the Treasury Department issued a report identifying six major problems with private foundations, one of which was the delay in benefit to charity. Treasury's solution to the "delay in benefit" issue was to recommend a mandatory payout. Thus, the Tax Reform Act of 1969 imposed a payout requirement on private foundations as well as several other new excise taxes, including the tax on net investment income.

The questions Congress faced regarding private foundations are the same as those we now face regarding college endowment funds. If an institution could educate all of its undergraduate students, regardless of need, free of charge with a payout of just 1 percent of its assets, is its endowment an unreasonable accumulation of taxpayer-subsidized funds? The question was raised by the Filer Commission in 1977 and resulted in a recommended payout for college endowments. The Joint Committee on Taxation in 1987 also recommended an excise tax on all investment income of all tax-exempt organizations, including college endowments.

Endowments are very different from private foundations in one significant way. Unlike private foundations which are funded by very few contributions, and in many cases only one, endowments are funded through continuous, aggressive fundraising by colleges and universities. Thus, while a private foundation grows its assets through investment income, an endowment grows through investment income *and* through additional contributions.

This raises questions that are not applicable to private foundations. Do colleges and universities

have fundraising plans with specific goals for not only raising money but also for spending it? To what extent is fundraising for student aid included in these goals? If the endowment per student at an institution is greater than or equal to the price of tuition, room, board and all fees per student, should contributions to such an endowment still be tax-deductible to the donor? If the endowment per student includes graduate students, shouldn't endowment spending include assistance for graduate students so that future teachers, social workers and health care professionals can work in underserved areas without worrying about their debt load? I expect these questions will generate some interesting conversation for our third panel today.

Before we get to that discussion, though, we need to understand why college tuition continues to skyrocket and make sure we are all on the same page when it comes to defining what exactly an endowment is. Since Congressman Welch is going to lead us through this conversation, I would like to turn it over to him. Before I do, since our colleagues from the IRS and Treasury are here today, I would like to ask them to develop a Form 990 schedule for colleges and universities, similar to the one that was developed for hospitals. While the new 990 requests some information about endowments, it does not require institutions to report information about their student populations or costs.