United States Senate Committee on Finance

For Immediate Release
Thursday, Jan. 24, 2008

Baucus, Grassley Write to 136 Colleges, Seek Details of Endowment Pay-outs, Student Aid

WASHINGTON – Sens. Max Baucus and Chuck Grassley, the leaders of the Senate Finance Committee, today wrote to the 136 U.S. colleges with endowments of $500 million or more, asking a series of questions about endowment growth and spending on student aid. The senators are seeking answers in light of a new study showing explosive college endowment growth.

"I have been encouraged by the recent changes that several universities have made to ensure access to higher education for low and middle income students. We need to engage America's colleges and universities to come together to address the fact that college tuition for young Americans and their families is increasing at a faster rate than inflation," said Baucus. "The questions we put forward in this letter will help Congress better understand how colleges use their endowments to make certain that talented young folks in Montana and across the country aren't left out of the classroom."

Grassley said, "Tuition has gone up, college presidents' salaries have gone up, and endowments continue to go up and up. We need to start seeing tuition relief for families go up just as fast. It's fair to ask whether a college kid should have to wash dishes in the dining hall to pay his tuition when his college has a billion dollars in the bank. We're giving well-funded colleges a chance to describe what they're doing to help students. More information will help Congress make informed decisions about a potential pay-out requirement and allow universities to show what they can accomplish on their own initiative."

Baucus is chairman and Grassley is ranking member of the Committee on Finance, with jurisdiction over tax policy, including the tax-exempt policy that covers colleges and universities. Federal law requires most private foundations to pay out 5 percent of their assets each year toward their charitable purpose. No such requirement exists for university endowments. Donations to universities are tax-exempt, and endowment funds are tax-exempt. A Finance Committee hearing last September explored endowment growth. Since then, three colleges – Harvard, Yale, and Dartmouth – have announced increased student aid.

A new study from the National Association of College and University Business Officers (NACUBO) released today shows double-digit endowment growth at hundreds of colleges over the past year. According to the study, 136 colleges in the United States now have endowments of $500 million or more. The study is available at http://www.nacubo.org/x2376.xml.

The text of the Baucus-Grassley letter to the 136 colleges follows here.

January 24, 2008

Dear

A top concern for Americans, and for Congress, is the rising cost of higher education. Congress has long looked to tax breaks, targeted spending, and loan programs to help families and students meet the burden of saving and paying for college. The results have provided some benefits but haven't resolved the problem of low and middle income students and families will face ever-higher tuition costs. We are interested in approaches that universities and colleges can adopt to address this problem.

It seems clear from recent actions by our nation's top universities that there is much that can be accomplished by colleges and universities, particularly those with significant endowments, to control costs and provide real relief for students from low and middle income families. In fact, many colleges and universities are now focused on controlling rising tuition costs and assisting low and middle income families. These efforts, by several of the nation's top universities, are already having a broad positive effect throughout the university community. This is a very positive trend that we'd like to see continue.

We would appreciate additional information about tuition costs and your institution's endowment. University endowments receive very generous tax breaks under the Internal Revenue Code. We want to better understand how these tax benefits for higher education endowments are improving education and making undergraduate studies more affordable for low and middle income families today.

The newspapers have been filled with stories of a few universities taking steps to increase endowment spending and provide free tuition for low-income families and greatly reduced tuition for middle-income families. This has been the first good news in a long time for families struggling with the burden of ever-increasing tuition. These actions have given hope to many that a top education is possible without having to take on crippling debt.

We are also pleased about steps that some universities are taking to exercise increased transparency in defining the actual amount of financial assistance a student will receive and the actual cost a family will have to pay for tuition, fees, room and board – for example, by providing an online calculator. Too often, colleges and universities do not provide enough information to students and families. Families and students need to have greater certainty regarding the costs of education so they can better assess their education options.

The recent release of figures from the National Association of College and University Business Officers (NACUBO) makes it clear that institutions with endowments over $500 million dollars a year are seeing very significant growth – and have been for many years. That is good news because much good can be done now. We hope that these strong returns will encourage you and your Board of Trustees to review your endowment payout policy and ensure that it reflects best practices.

To assist the Senate Finance Committee in better understanding this area, we request your response to the following questions:

1) Please provide the number of undergraduate and graduate students year-by-year for the last ten years.

2) Please provide the total cost of undergraduate tuition (including all fees) -- both sticker and average, mean and median -- year-by-year for the last ten years. Please provide the amount of tuition assistance (not including loans or work study) that the university has provided to undergraduate students year-by-year for the last ten years. For the most recent year, please provide the percentage of students receiving university grants (for example 25%; 50%; 75% and 100% of tuition and fees). Please provide the average grant amount.

3) Please explain your university's financial aid policy. How do you inform students and parents of that policy? What outreach efforts does your university take to recruit potential low-income students? How is low-income defined? What is the amount spent on these efforts?

4) Who determines and decides when tuition increases are necessary? What is the process for making this decision? Does the full Board of Trustees vote on tuition increases? Are students, parents and the public provided an opportunity to comment on tuition increases prior to final decisions being made? What role does your university endowment play in providing financial assistance to students?

5) Please explain how your university's endowment is managed and the role of the Board of Directors? What are your university's endowment payout and investment policies? What is the mission of your university's endowment? When was the last time that the university's endowment policy was reviewed? When will it next be reviewed?

6) Please provide the year-by-year net growth of the university's endowment for the last ten years (in both percentage and dollars). What is the amount of donations the endowment has received year-by-year for the last ten years? Please provide the percentage of investment in each asset class (equity, fixed income, hedge funds, private equity, venture capital, etc.) and the amount invested outside the United States

7) Please explain how you determine what is considered part of the university endowment. In other words, how is your endowment defined? Are there any other long term investments that are not included in the endowment as reported to NACUBO? If so, what are they and what are their values?

8) What has been the cost of management of the endowment year-by-year for the last ten years?

9) What was the payout (both in dollars and percentage) from the endowment year-by-year for the last ten years? What is the targeted payout (in percentage) from the endowment year-by-year for the last ten years? If either the actual and/or targeted payout is below 5%, please explain how this meets the needs of the current student body. If there is a material variation between actual and targeted, please explain. What were the top 10 major expenditures from the endowment last year?

10) How much of the endowment is subject to permanent spending restrictions or limitations set by the original donor? Of the portion subject to permanent limitations, what percentage is restricted for need-based scholarships? What portion is restricted for undergraduate financial aid? Please provide the top five types of restrictions on the endowment by category. What percentage of the endowment is subject to significant limitations placed on it due to a decision by the board (or a subcommittee of the board) or a college or university official – such as a set-aside for a specific program? Please provide the investment return to the endowment year-by-year for the last ten years.

11) Please explain the fee arrangement to investment advisors. How is the fee and compensation measured and determined? What is the process to review reasonableness of the fee and compensation and what comparables are used? Who reviews and approves the fee? Who pays the fee (the endowment, general funds)? Please explain what relationship, if any, exists between endowment size and/or growth and the compensation given to the college or university president and the endowment manager. Please list what endowment-related bonuses, if any, either the college or university president or the investment manager has received year-by-year for the last ten years.

In advance, we appreciate your time and consideration in responding to these questions. Your responses will help us better understand this area and inform our deliberations as we consider potential policies. We encourage you to contact the Finance Committee staff so we can work with you on your response and ensure that it is not unduly burdensome. We envision that many or most of the answers can be answered in brief – a page or less. Please respond within thirty days. Thank you.

Sincerely,

Max Baucus

Chairman

Chuck Grassley

Ranking Member