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POINT OF VIEW

Wealthy Colleges Must Make Themselves More Affordable

By CHARLES E. GRASSLEY

We Americans have decided that the work of nonprofit colleges and universities is so invaluable that they should be exempt from taxes. So John Doe pays taxes. John Deere pays taxes. But Johns Hopkins does not.

Those tax exemptions involve a social compact: In exchange, colleges are obliged to carry out the charitable purpose of providing the best education to the most students at the lowest cost. That system works pretty well. College is more accessible to a greater number of students than ever before.

Many colleges have seen unprecedented growth in their endowments in recent years, giving us the opportunity to see whether they can use some of the additional money to help even more students afford a quality education. For example, Harvard's $34.6-billion endowment, as reported in a recent study by the National Association of College and University Business Officers, is roughly equal to the combined gross domestic products of the Bahamas, Barbados, Burundi, Mauritania, Somalia, and Zimbabwe. Yale University has an endowment of $22.5-billion, and Princeton has one of $15.8-billion. Beyond the Ivy League, dozens of other higher-education institutions have reached the billion-dollar mark. Pomona College's endowment is $1.8-billion. Yeshiva University's is $1.4-billion. Texas Christian University's is $1.2-billion. The list goes on.

Of course, such collegiate wealth is attracting attention. Some Massachusetts legislators recently floated the idea of enacting an annual tax of 2.5 percent on endowments that exceed $1-billion.

I don't want to tax colleges. But I do want to know more about how they are maximizing their tax-exempt status to fulfill their charitable mission of educating students.

Parents and students are anxious about college prices. Increasingly, parents of newborns are opening college savings accounts if they can afford to and worrying if they can't. Students from low-income families fear they won't be able to afford college, some so much that they don't even apply. Recent graduates describe pressure to find high-paying jobs not out of passion for the field but to pay off the high-interest loans that they took out to get the best education.

Those concerns have sparked questions by the U.S. Senate Finance Committee, where I serve as ranking member, about why wealthy colleges aren't spending more endowment money on student aid. Last fall we held a hearing at which two witnesses described stratospheric endowment growth. After that and further scrutiny by members of Congress, education watchdogs, and the news media, a series of top colleges announced enhanced student-aid packages.

Those are welcome developments, but they involve only a dozen or so institutions. Could and should those institutions do even more? How are the dozens of other well-financed institutions using their financial success to help students afford college?

In January, Max Baucus, chairman of the Senate Finance Committee, and I wrote to the 136 colleges with endowments of $500-million or more about their endowment payouts and student aid. We've collected the responses. We'll analyze that information and use it to continue the discussion about how to make college more affordable. Legislation to require the wealthiest institutions to have an annual 5-percent endowment payout remains a possibility, as does increased reporting about endowment performance and expenditures.

It's clear that the details of endowment size and spending are hard to come by and of keen interest to members of Congress and even colleges themselves. Early on, a staff member in the investment office of a well-financed college called us to request all of the institutions' responses as soon as possible. He said his college was eager to see what the others were doing.
Other college officials are nervous about the increased interest and have expressed concerns, including these:

A 5-percent payout requirement is too prescriptive. But private foundations are subject to a 5-percent payout requirement, and they're thriving. Colleges argue that foundations exist to disburse their funds, while endowments have to support their institutions in perpetuity. Of course higher-education institutions need financial resources for future operations and capital investments. But foundation funds are usually fixed, while colleges receive new donations all the time. Isn't it just easier for some colleges to raise tuition and amass endowments than to look for ways to cut costs or pay out more to help current students?

Most donations to colleges are restricted and can't be spent on student aid. That is a chicken-and-egg argument. Are donor funds restricted because donors impose restrictions or because colleges solicit donations for specific purposes? For example, many colleges ask undergraduates to call alumni to solicit donations. It would be difficult to say no to an earnest young student seeking donations for any purpose. It would be nearly impossible to say no to an earnest young student seeking donations for need-based scholarships. If colleges need money to help poor kids attend, surely donors will respond and suspend dreams of an eponymous fountain on the quad.

And even when donations are restricted, don't some colleges cite excessive restrictions as an excuse to hoard rather than spend the money? Say a donor wanted his million dollars used for music appreciation. The institution could offer scholarships for low-income music majors. As we say in the nation's capital, money is fungible.

Getting wealthy universities to spend more to help middle-income families pay for college will hurt low-income families. The idea is that wealthy colleges can afford generous student aid for middle-income families, allowing them to siphon away those students from less-affluent institutions - which will then also have to offer more aid to middle-income families to compete. That, in turn, will divert aid money away from the low-income students who truly need it. I look forward to hearing colleges flesh out that argument. Right now, it seems to me that lowering the affordability barrier would raise the aspirations and academic achievements of more and more applicants, broadening the pool of good students from all socioeconomic backgrounds.

College finances are complex; Congress doesn't understand. Some institutions seem to make their finances - including tuition policies, student-aid options, and endowment-spending rates - opaque for students, parents, and Congress alike. The Senate Finance Committee should have a complete picture before considering legislative changes. That's why Chairman Baucus and I wrote to the colleges with the largest endowments: to give them an opportunity to describe how they use their endowments and why, and how they distribute and publicize student aid. When we analyze the responses, we will proceed deliberately.

Meanwhile, tuition may be inflated in the first place. Some colleges openly admit to steep tuition increases to attract applicants and compete with rival institutions, not necessarily to keep up with real costs. They say applicants equate a high price with quality.

Because of the attention to endowments, there's a renewed discussion among parents, students, donors, and trustees about skyrocketing tuition. I invite more questioning and analysis of pricing and affordability.

Congress is engaged in a power grab and meddling in an area that's none of its business. Or, as a former University of Texas regent put it, "What gives the federal government the right to, in Texas terms, put their cotton-pickin' hands on our money?"

The federal treasury forgoes billions of dollars from tax-exempt entities, including colleges. Not only are higher-education institutions exempt from federal taxes, but their endowments are tax-free, and donations to them are tax-deductible. Part of the recent endowment spike came from the aggressive use of off-shore tax-avoidance strategies. Taxpayers pay for federal tax incentives to make higher education more accessible and affordable through 529 college-savings plans, a deduction for taxpayers filing jointly of up to $4,000 for tuition (depending on income), and the tax deductibility of interest on student loans.

Such favorable tax treatment came through Congress, specifically through the Senate Finance Committee. Congress has an obligation to make sure those tax policies are working as intended.

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