



NEW AMERICA
F O U N D A T I O N

Comments of Benjamin Miller

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Good afternoon, Senator Grassley and Representative Welch and other members of this roundtable on college endowments. My name is Ben Miller and I am a program associate in the Education Policy Program at the New America Foundation, a nonpartisan public policy institute in Washington D.C.

Thank you for the opportunity to participate today in this important roundtable to discuss the possibility of using university endowment funds to make college more affordable. It is undeniable that financing a postsecondary education is becoming an increasing burden for families across the nation—especially those from the lower income brackets. I believe that tapping university endowments, via a mandated payout rate, is a promising way to help decrease families’ tuition burdens and improve the socioeconomic diversity at America’s elite institutions of higher learning.

For a generation, the overall cost of going to college has easily surpassed the growth rate of wages and inflation. While families have struggled to meet these ever-increasing costs, several of the nation’s most prestigious universities have amassed billions of dollars in their endowments—benefiting from endowments’ tax-free status to record gains well above market averages.

Not only are these colleges wealthy, so are their students. For example, Harvard’s announcement last December that it would provide substantial tuition reductions for students with familial incomes of up to \$180,000 only affected about half of its student body—despite the fact that this cutoff represents all but the top 5 percent of U.S. households.¹ That wealthier students are proportionately overrepresented is not due to a dearth of otherwise qualified individuals from lower income brackets as one may be led

¹ Scott Jaschik, “Harvard’s Aid Bonanza,” *Inside Higher Ed*, December 11, 2007, <http://www.insidehighered.com/news/2007/12/11/harvard>; “Table HINC-05. Percent Distribution of Households, by Selected Characteristics Within Income Quintile and Top 5 Percent in 2006,” U.S. Census Bureau, Current Population Survey, http://pubdb3.census.gov/macro/032007/hhinc/new05_000.htm.

to believe. A 2005 study by researchers at Williams College found that more than one-third of students who scored above a 1,300 on the SAT's (under the old 1,600 scale) or the equivalent on the ACT exam came from families making \$50,890 or less.² Just under 30 percent of those who scored 1,420 or above came from families with similar income levels.

The under-representation of lower-income students seems to be a problem throughout the wealthiest colleges and universities. According to an analysis published this May by the *Chronicle of Higher Education*, only 13.1 percent of the student body at the 75 wealthiest private institutions in the 2006-07 school year received Pell Grants—one way of measuring a school's socioeconomic composition. Moreover, the *Chronicle* found that the number of Pell Grant recipients at these institutions actually decreased from a mark of 14.3 percent in the 2004-05 school year.

It is troubling that this aggregated drop occurred despite efforts from several schools to substantially reduce their tuition burden for lower-income applicants. This suggests that the passive strategy of attempting to achieve socioeconomic diversity by attracting additional lower-income applicants via reduced tuition barriers fails to get at the crux of the problem, which as St. Lawrence University President Daniel Sullivan described, is that “Colleges cannot admit those who do not apply in the first place.”³

I propose that Congress actively work to increase socioeconomic diversity and the pool of qualified lower-income applicants at America's wealthier colleges by mandating an endowment payout rate for the most affluent institutions across the country. This spending rate should be accompanied by a requirement that the majority of funds be used to increase the preparation, recruitment, and retention of low-income students.

There is precedent for a mandated payout rate. Currently, other non-profit foundations are required to spend at least 5 percent of the market value of their endowment assets on charitable purposes every year—a requirement that is not applied to colleges and universities. As a result, postsecondary institutions often end up spending an annual percentage of their endowments that falls below this threshold. According to the National Association of College and University Business Officers, in 2007, schools with endowments greater than \$500 million spent only 4.4 percent of the market value of their endowments. Though a gap of 0.6 percentage points may seem trivial, the combined asset total of schools with endowments over \$500 million, roughly \$334.2 billion, means a mandated increase in the spending rate could lead to the availability of billions of additional dollars to help lower-income students achieve their college dreams.⁴

² Gordon Winston and Catharine Hill, “Access to the Most Selective Private Colleges by High-Ability, Low-Income Students: Are they out there?” Williams College, Discussion Paper 69, October 2005, <http://www.williams.edu/wpehe/DPs/DP-69.pdf>, 15.

³ Daniel Sullivan, “Merit and Access,” *Inside Higher Ed*, April 19, 2007, <http://www.insidehighered.com/views/2007/04/19/sullivan>.

⁴ “All Institutions Listed By Fiscal Year 2007 Market Value of Endowment Assets with Percent Change Between 2006 and 2007 Endowment Assets,” National Association of College and University Business Officers, *2007 NACUBO Endowment Study*, 2008,

Not Just “Student Aid”

It is important that increased endowment funds are not targeted into the nebulous, seemingly catch-all term of “student aid.” I am afraid that doing so could lead to problematic outcomes. For starters, colleges could simply use the increased endowment spending to supplant, rather than supplement, existing student aid dollars. Secondly, funds are so fungible that they could be used for extravagant capitol projects, such as state-of-the-art dormitories with unnecessary amenities or new fitness centers for athletes, all under the guise of “student assistance.” To counteract this, increased endowment funds should be put toward concrete programs with the identifiable goal of increasing the representation of low-income students on wealthy campuses. These projects could include efforts such as:

- **Centers of Excellence for Low-Income Student Success**

The reauthorized version of the Higher Education Act contains a grant program for some colleges to create centers of excellence for veteran students. These centers would consist of full-time staff members whose job it is to coordinate all aspects of veteran student life, running the gamut from academic and career advising, access and persistence monitoring, outreach, housing support, and tutoring assistance.⁵ Colleges could devote increased endowment spending to creating similar centers for low and lower-income students.

- **Improved High School Outreach**

In Creating a Class: College Admissions and the Education of Elites, Mitchell Stevens documents the importance of good relationships between admissions representatives from an elite New England liberal arts college and high school guidance counselors. Officials who are familiar with specific schools and counselors end up devoting more time at those locations, which aids efforts to locate talented students. Increased endowment spending could be used to increase staff capacity at admissions offices, allowing them to send more representatives to high schools that serve large populations of lower-income students as a means to build up these important relationships.

- **Local Outreach**

Increased endowment spending on preparing low-income students for a college education need not solely target individuals guaranteed to attend one of these wealthy institutions. Many colleges and universities with large endowments are located in economically depressed cities, counties, and states where an influx of money could have substantial effects on improving the educational outcomes of students in local school districts. For example, my alma mater, Brown University, promised in

http://www.nacubo.org/Images/All%20Institutions%20Listed%20by%20FY%202007%20Market%20Value%20of%20Endowment%20Assets_2007%20NES.pdf.

⁵ Higher Education Opportunity Act, H.R. 4137, 110th Cong., 2nd sess., http://www.thomas.gov/cgi-bin/cpquery/?&dbname=cp110&sid=cp110xfvTr&refer=&r_n=hr803.110&item=&sel=TOC_1184753&, Part T, Sec. 873.

February of 2007 to create a \$10 million endowment for the Providence School District.⁶ This fund could be an important source of support for a district where 38 percent of its students are impoverished and just 28 percent of its fourth grade students scored proficient or higher on state mathematics tests.⁷

- **Going Beyond High Schools**

While colleges often have direct interactions with high schools, there is no reason that they cannot create similar relationships with middle schools. For example, Education Sector's Kevin Carey has written about Florida State University's Center for Academic Retention and Enhancement, a successful program established in 2000 that begins working with potential low-income college students as early as sixth grade.⁸ Targeting these students for academic assistance at a young age can help prepare them for the rigors of a postsecondary education and avoid the pitfalls of remedial education, often a major barrier to program completion.

- **Scholarships**

Several schools have taken steps in recent years to eliminate loans or tuition for low-income students. Doing so helps greatly reduce the financial barriers to access faced by many students. As noted above, for scholarships to maximize their effect, they must also be coupled with aggressive outreach and support efforts.

These are just a few examples of the initiatives schools could undertake with additional funds. Given their creativity in other areas of research and scholarship, I am confident that colleges and universities could easily develop other exciting options.

Why Elite Colleges?

Some critics of an endowment spending proposal have pointed out that it is a mistake to focus too much on these wealthy institutions—namely those who carry reserves of greater than \$500 million—because they represent just a small fraction of total postsecondary enrollment nationally. But these institutions are also among the premier colleges and universities in the world, and, as a result of their reputation, they confer substantial benefits to their graduates. Given that this country was founded upon principles of meritocracy, we should do our best to ensure that our wealthy academic institutions do not become bastions solely for the elite. This is a very real concern. As the Delta Project report “The Growing Imbalance” notes:

Since the mid-1990s, undergraduate enrollments of low-income, Black and Hispanic students have increasingly been concentrated in public two-year institutions and proprietary institutions. ... By comparison, the proportion of

⁶ Simmi Aujla, “Simmons: Fund Could Have Lasting Impact,” *Brown Daily Herald*, February 27, 2007, <http://media.www.browndailyherald.com/media/storage/paper472/news/2007/02/27/Metro/Simmons.Fund.Could.Have.Lasting.Impact-2745221.shtml>.

⁷ “Providence School District,” New America Foundation, Federal Education Budget Project, http://www.newamerica.net/education_budget_project/districts/providence_school_district#districtform-3.

⁸ Kevin Carey, “Graduation Rate Watch: Making Minority Student Success a Priority,” Education Sector, April 2008, http://www.educationsector.org/usr_doc/Graduation_Rate_Watch.pdf, 1.

higher-income students at public two-year institutions has declined while their concentration at doctorate-granting public and private nonprofit institutions has grown.⁹

Intergenerational Equity

One of the most common arguments against directing the spending of college and university endowments is that doing so would deplete funds that are needed to ensure the same level of instructional and facility quality for future generations. This argument, however, does not acknowledge the harm that is done to future generations by not doing more in the present to increase the number of lower-income college attendees and graduates. In 2002, the Advisory Committee on Student Financial Assistance estimated that every year there are roughly 170,000 otherwise qualified low- and moderate-income students who do not attend college.¹⁰ These individuals are put at a significant disadvantage in the workplace and are likely to generate much less income over their lifetimes.¹¹ Failing to attend college also has implications for individuals' children: The National Center for Education Statistics found that students whose parents had a bachelor's degree or higher enrolled in college at a rate 22 percentage points higher than students whose parents had no more than a high school diploma.¹² Enrolling a low-income student today increases both their expected lifetime earnings and the likelihood that their children will go to college, having a positive impact on the college access of future generations.

Federal Overreach

Opponents of the mandated payout rate are often quick to claim that the federal government has no business inserting itself into schools' finances. Such an argument ignores the fact that endowment gains are substantially aided by their tax-free status. Not subjecting endowments and their contributions to taxes means that the government forgoes large amounts of potential revenue from institutions and individual taxpayers who use their donations as a tax write-off. The lack of taxation also helps colleges with their investing strategy, giving them the flexibility to take short-term positions or constantly change holdings and allocations since they are not subject to capital gains or income taxes faced by individual investors. Colleges are given these exemptions for a good reason—they have significant public externalities in terms of their contributions to research and educating future generations. This exchange—tax-free status for public good—however, is based on the assumption that universities are fulfilling their mission. If colleges fail to meet their mission in a specific area, such as enrolling a representative

⁹ Jane Wellman, Donna Desrochers, and Colleen Lenihan, "The Growing Imbalance: Recent Trends in U.S. Postsecondary Education Finance," Delta Cost Project, 2008, <http://www.deltacostproject.org/resources/pdf/imbalance20080423.pdf>, 16.

¹⁰ "Empty Promises: The Myth of College Access in America," Advisory Committee on Student Financial Assistance, June 2002, <http://www.ed.gov/about/bdscomm/list/acsfa/emptypromises.pdf>, 9.

¹¹ "Education Pays...," U.S. Department of Labor, Bureau of Labor Statistics, April 15, 2008, <http://www.bls.gov/emp/emptab7.htm>.

¹² "Percentage of high school completers who were enrolled in college the October immediately following high school completion, by parents' education: 1992–2006," National Center for Education Statistics, Table 24-3, <http://nces.ed.gov/programs/coe/2008/section3/table.asp?tableID=904>.

sample of students, inquiries should be made into what could be done to change these institutions' behavior.

Complexity

While the concept of an endowment seems simple on paper, it is true that they often consist of thousands of individual pots of money that are in various states of liquidity. In addition, not all endowment funds are free to be used for any purpose desired by colleges—many carry specific restrictions placed by donors. As such, payout opponents say that endowments are too complicated and overly restricted to be met with a blanket spending rate. While these may be legitimate concerns, they are also a product of fundraising strategies. These tactics include pursuing individuals to give large donations for specific big-ticket items, such as buildings or sports facilities. Were colleges to target contribution efforts toward raising general donations, rather than strictly defined needs, then the issue of borrower intent would not be as problematic. Moreover, two of the most common fund restrictions are for financial aid or endowed faculty chairs. Both of these purposes could be used to bolster efforts to prepare, recruit, and retain lower-income students in the form of support services, scholarships and money for faculty willing to provide additional tutoring or advisory assistance.

Endowments are Heterogeneous

When discussing a mandatory payout rate, it is important to recognize that some diversity does exist among endowments. For example, both Princeton University and the University of Texas System have nearly the same amount of endowment funds, but the former enrolls only 7,334 students, compared with over 190,000 for the latter.¹³ The needs that must be met by these two funds are obviously very different, and it would be unfair to subject a system that has roughly \$82,000 in endowed funds per student with a single institution that has \$2.2 million per enrolled individual. It is important that these differences are taken into account when deciding which institutions should be subject to a payout rate. For example, endowed funds per student or the ratio of endowed funds to operating budget may prove to be better metrics as a payout system is put into place. Ultimately, it should be clear that the goal of the payout rate is to target institutions that have large endowment funds due to their wealth, not just because they operate as part of a pooled collective.

Endowment Spending is Possible

Despite the opposition to a mandated spending rate, there are many colleges that are already exceeding the suggested 5 percent threshold or are engaging in substantial efforts to improve their share of low-income students. Smith College, for example, has traditionally made extraordinary efforts to enroll large numbers of less affluent students, both through better outreach efforts and its Ada Comstock Scholars Program that targets

¹³ “University Enrollment Statistics,” Princeton University, Office of the Registrar, http://www.nacubo.org/Images/All%20Institutions%20Listed%20by%20FY%202007%20Market%20Value%20of%20Endowment%20Assets_2007%20NES.pdf, 3; “UT Institution Facts,” University of Texas System, http://www.nacubo.org/Images/All%20Institutions%20Listed%20by%20FY%202007%20Market%20Value%20of%20Endowment%20Assets_2007%20NES.pdf.

non-traditional-aged students. The results have been impressive: Over 25 percent of Smith's students received Pell Grants in the 2005-06 school year, while 33 percent of its dependent financial aid applicants came from families making less than \$60,000 annually.¹⁴ Smith has achieved this success while being recognized as the 18th best liberal arts college in the nation by *U.S. News and World Report*.¹⁵

Stanford University has shown a willingness to boost its endowment spending beyond the suggested 5 percent threshold, adopting a new payout rate of 5.5 percent in February of this year.¹⁶ That is encouraging news from a school that registered endowment gains of 22 percent in fiscal year 2007, but saw a decrease in its number of Pell Grant recipients from the 2004-2005 to 2006-07 school year.

While it still remains to be seen how a mandated rate would function, what level it would be set at, who would be accountable, and how its success should be measured, the conversation on mandatory pay-out rates must move forward. I am hopeful that this roundtable will prove to be an important step toward making wealthy colleges dedicate more of their amassed funds toward improving the preparation, recruitment, and retention of lower-income students. Thank you again for allowing me to participate today.

¹⁴ "Institutional Profiles: Smith College," the Institute for College Access and Success, Economic Diversity, http://economicdiversity.org/profiles_b.php?unitid=167835.

¹⁵ "Liberal Arts Colleges," *U.S. News and World Report*, Best Colleges 2009, <http://colleges.usnews.rankingsandreviews.com/college/liberal-arts-search>.

¹⁶ Steve Rubenstein, "Stanford Drops Tuition for Some Students," *San Francisco Chronicle*, February 20, 2008, <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/02/20/MNABV5LHM.DTL&tsp=1>.