Almost all would agree that a college education in the U.S. is expensive—and becoming more so.

There is disagreement, however, regarding how access to higher education should be financed.

One subject of increasing attention and importance to the financing of higher education is university endowments. But what exactly are university endowments, how do they work, and are they the best way to finance access to higher education? Are they solutions for all institutions, or are they, in their own ways, forces for inequality and exclusion in their own right?

These questions, among others, were the focus of an event at UC-San Diego sponsored by the Yankelovich Center for Social Science Research. The event brought together scholars, students, community leaders and other experts to hear from Charlie Eaton, an assistant professor of sociology at UC-Merced and a leading expert on the financing of higher education; Marlene Shaver, the Chief Financial Officer of the San Diego Foundation and a key overseer of UC-San Diego’s own endowment; Ian Gordon, Senior Vice President and Chief Impact Officer of the United Way, who has long been involved in issues of youth and opportunity; and Christopher Loss, a professor of history, education, and public policy at Vanderbilt University and a leading historian and expert on research universities.

Some key points from the discussion follow.

Why should we care about endowments and the financing of higher education?

Endowments are a key strategy for financing higher education and opening access to it—a fact that allowed Ian Gordon to powerfully stress the stakes of the matter. He pointed out, first, that a college degree has never been more important for security and upward mobility in the U.S
Endowments are a key strategy for financing higher education and opening access to it—a fact that allowed Ian Gordon to powerfully stress the stakes of the matter. He pointed out, first, that a college degree has never been more important for security and upward mobility in the U.S. The fastest growing and most highly paid occupations in the U.S. now require a college education, and earning a college degree pays enormous dividends. For instance, according to Gordon, “Over the course of a lifetime, the average worker with a bachelor’s degree will earn approximately $1 million more than a worker without a postsecondary education.”

Yet the U.S. is falling behind other countries in college attainment. Tuition is rapidly increasing, and student debt is growing as well. Even more concerning is the continuing inequality in the attainment of a college degree.

According to the US Census, about 33% of the overall population has a college degree or higher, but only about 10 percent of low-income individuals earn a college degree. Gordon reported that in San Diego, the rapidly growing Latino population is well behind the national average in college degree attainment, with only about 15 percent having that credential.

What exactly are endowments and how do they work?

Marlene Shaver laid out for the group the basics of the world of endowments and how endowments can impact university financing.

An endowment is created when a donor provides a gift to a university with the stipulation that the gift should be invested for total return and held in perpetuity; a portion of the return is spent (called payout) while a portion is retained so the endowment can grow and keep pace with inflation over the long term. Donors can specify how they wish the payout to be spent or they can leave it unrestricted.

Endowment is not new—John Harvard left an endowment to the new college bearing his name in 1638. They are governed in part by state law, which in California means primarily the Uniform Prudent Management of Institutional Funds Act. The law prescribes legal duties to endowment trustees, such as balancing high returns with risks to maximize benefits, and limiting how much can be spent.
Overall, the University of California endowment (including the campus foundations) was about $19.6 billion in 2018, and individual campuses varied greatly as well, with the older campuses of UC-Berkeley and UCLA having the largest and newer campuses such as UC-Riverside and UC-Merced having the smallest.

Endowments vary tremendously in size. Harvard University enjoys the oldest and the largest endowment—about $39 billion in 2018. New universities such as UC-San Diego look like startups in comparison—only about $740 million.

Endowment money is not simply held in a bank, so where does it go? Both the overall UC and the UC-San Diego endowments are heavily invested in public equities (nearly 50% of overall investments), while both are 37% in “alternatives” (such as private equity, hedge funds and real estate) and the remainder in liquidity (primarily fixed income).

Shaver stressed that payouts from endowments are quite restricted at most campuses, and unrestricted gifts are increasingly rare. As such, very little endowment payout assists UC San Diego with operational needs, unlike the payout use at much older institutions with larger unrestricted endowments. At UC-San Diego, about half of all endowment income is spent on endowed chairs for professors (28 percent) and support of specific departments (23 percent). Other major categories are research (21%, such as the gift that Daniel Yankelovich provided to create the Yankelovich Center) and support for student scholarships and fellowships (15%).
Why should we be concerned about the trend toward endowments as a source of financing for higher education?

Historically, the financing of higher education has come from a variety of sources—endowments, direct aid from state governments, tuition, research grants from government or private foundations, out-of-state students and international students, and even real estate. None are perfect, but Charlie Eaton and Christopher Loss both offered perspectives on endowments as sources of financing that are important for the future of higher education in America.

Eaton’s presentation was informed by his research that puts endowments into a larger context of a turn toward finance in higher education. He identified three areas in higher education where inequalities were increasing. One was what Eaton called “endowment hoarding,” where just ten private universities were rich and getting richer while overall numbers of students mostly held steady. This meant that spending per student at these institutions had more than doubled between 1988 and 2014, from $50,000 to over $100,000. All other institutions stayed about the same during this time period.

The second inequality was the challenges students had in repaying debt, with students at these top 10 institutions doing the best on paying any debt, but those at community colleges and for-profit institutions facing the greatest challenges. In these latter cases, only about 40 percent had repaid any debt after three years.

The third inequality over the past few decades was the growth in for-profit colleges. These institutions, frequently in the news for low graduation rates and high student debt, now enroll about 10% of all higher education students—mostly from low-income backgrounds.

Eaton saw these rising inequalities as emerging with the rise of finance in higher education and the decline of other stakeholders in influencing university governance. State government spending per student at putatively public institutions, for example, has been in a mostly steady decline since 1980, putting pressure on these universities to increase their endowments.
But Eaton provided insight into why there was “endowment hoarding” at the richest universities (mostly in the Ivy League) when he showed that America’s billionaires—those most likely to give large gifts to universities—are increasingly making their fortunes in finance, and high finance is dominated by those with Ivy League degrees. For example, while only 30 percent of the billionaires who are not in finance went to an Ivy League institution, the numbers for private equity were nearly 70%, 50% of hedge fund billionaires went to an Ivy, and a bit more than 40% of other finance-created billionaires hold an Ivy League degree.

Eaton identified other ways that “bankers came to the ivory towers” of American higher education. First, he showed close links between leaders in the world of high finance and the boards of the richest universities in the U.S., as well as the growing number of large gifts from high net worth individuals to their Ivy League alma maters.

Second, he showed how the finance industry lobbied for and stood to benefit from the increasing reliance on student loans to finance higher education. Loans grew rapidly after the 1992 Higher Education Act, which greatly expanded eligibility and available funding for student loans, while offering federal subsidies to private banks through “loan guarantees.” Federal loan borrowing exploded from $20 billion in 1993 to nearly $100 billion in 2014 in constant dollars.

Christopher Loss offered a longer historical and political perspective on the moves to endowments and finance in higher education. He noted that public support for so-called public institutions was, on average, less than 10 percent of overall costs on average, and noted that as state support for universities declined, universities did not respond by fighting back for more state support. Instead, Loss noted, they “doubled down on the marketplace in an effort to cover rapidly rising costs, support students, and build new climbing walls and lazy river swimming pools.” In other words, finding states to be less generous, universities asked private donors for money.

But Loss argued that not all universities moved toward endowment financing because not all universities and colleges could move toward endowment financing.
While Eaton drew distinctions between the very top richest universities and the rest, Loss saw a larger group, about 75 or so institutions (including UC-San Diego), that earned any major endowment income. In fact, about 125 institutions had about three quarters of all endowment income.

That might seem like a lot of colleges and universities, but Loss reminded the group that the U.S. actually has about 4,500 institutions of higher education. There simply isn’t enough endowment giving to support all of these colleges, and the 20 million students who attend these institutions. These universities have relatively tiny endowments, and often use the income for basic operating expenses. The entire California community college system, for example, has an endowment of only $76 million—for 114 colleges and more than 2 million students per year.[1]

One point of consensus in the discussion was that increased transparency of the financing of higher education was a social good. And as Loss noted, following the money revealed that even our old categories of “private” and “public” institutions of higher education had lost their meaning, with public institutions receiving less than 10 percent of expenses from state funding, while private and public institutions alike received huge sums from public sources, such as subsidized medical care in university hospitals, and billions of dollars in federal research spending.

Solutions for the current challenges of inequalities between institutions are not obvious. Eaton argued that the problem driving the whole system was overall inequality in American society and advocated for higher marginal tax rates. Shaver pointed out rising taxes could lead to shrinking gifts to universities, and without policies in place to immediately bring increased tax revenue into higher education, the low-income students highlighted by Gordon could, at least in the short term, find even more barriers to access. Any long-term solutions will require stakeholders both inside and outside the world of finance to have influence on the governance of higher education.
Suggested citation:

1] According to the Foundation for California Community Colleges. https://foundationccc.org/News-Room/News-Archives/2018-Archive/Walter-S-Johnson-Foundation-Received-Osher-Award


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