THE WORTH OF ENDOWMENTS IN HIGHER EDUCATION

AN INFORMATION BRIEF FROM THE AGB GUARDIANS INITIATIVE™

As those legally entrusted with colleges and universities as public and societal assets, trustees have a responsibility to act in the interest of beneficiaries other than themselves, including future generations. Higher education's boards are appropriately accountable for the value of endowments, and board member voices are indispensable to informed public debate about the work that endowments enable.

AGB ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

The Guardians Initiative™
Reclaiming the Public Trust

U.S. colleges and universities hold more than $500 billion in endowment assets, but many people have a poor understanding of these assets' purpose and value. Trustees should be ready to share in plain terms where endowments come from, how they work, and why they exist. Here are just a few takeaways from *The Worth of Endowments:*

- **Endowments are pools of privately donated funds that are invested to support the institution in perpetuity.**
  Often these donations are targeted (and sometimes large portions are restricted) to support specific activities, such as scholarships, faculty positions, education programs, and community outreach. (p. 3)

- **Governing boards set spending rates on endowment assets.**
  Between 2008 and 2017, endowments' annual rates of return averaged 4.9 percent—roughly three times the annual rate of inflation—but they fluctuated between -18.7 percent and 19.2 percent. Institutions with large endowments are more likely to use them as a source of reserve funds. (pp. 3, 5, and 6)

- **Asset size is a poor proxy for the effectiveness of any endowment.**
  At minimum, two elements of knowledge are essential to assessing an endowment's effectiveness: 1) the percentage of an institution's revenue mix that is provided by the endowment, and 2) how well the allocation of endowment accounts aligns with current and anticipated spending priorities. Additionally, most institutions with endowments also hold debt. (p. 7)

- **Institutions with large endowments enroll much smaller shares of low-income students than those with smaller endowments.**
  However, institutions with large endowments often charge considerably lower net prices to low-income students than they would pay at other colleges and universities. (pp. 11-12)

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