Fact Sheet: the University of Minnesota Endowment

Endowments - what are they?

An endowment is created through gifts and grants intended for the long-term support of nonprofit institutions, such as churches, hospitals, museums, and colleges and universities.

- For more than 300 years, endowments have provided support for American colleges and universities, and today, institutions like the University of Minnesota utilize the earnings from endowments in numerous ways, including to help attract and retain faculty members and to provide access to higher education for talented students, some of whom have significant financial challenges.
- Endowments provided by donors to public universities are often designated for specific purposes by those donors, with the intention of supplementing public funds to create programs of higher quality than would otherwise be possible, or to provide scholarships to students who would not otherwise be able to attend a college or university.

The University of Minnesota's Endowment

Like other land-grant institutions, the University of Minnesota was founded in part with the proceeds from grants of land set aside by Congress and the Minnesota Territorial Legislature prior to statehood in 1861.

- Some of that original endowment, consisting of managed lands and the proceeds from previous sales and land use, still helps to fund the University's work today as part of what is called the Consolidated Endowment Fund (CEF).
- Additionally, over the past century the University has successfully raised dollars from generous donors, and these donations and their investment earnings have come to comprise the largest portion of endowed funds held by the University and its affiliated foundations. In FY 2007, the University raised a record $234 million from donors through its foundations, a 40 percent increase over the previous year.

Endowment vs. Endowments

Today, the University of Minnesota and its affiliated organizations oversee some $2.86 billion in endowment funds, which, for the purposes of this fact sheet, will hereafter be referred to as the Endowment. The Endowment ranks as the sixth largest among public universities and systems, and 24th among all universities.

The terminology here is simplified, because the $2.86 billion Endowment is comprised of thousands of individual accounts, most of which are legally restricted to specific purposes. Simply put, and contrary to testimony before the US Senate Committee on Finance in 2007, the Endowment is not a single pot of funds that can be easily tapped according to new or shifting priorities.

In fact, trust law requires that the original donor's intent be respected and followed as set forth in written documents supporting each of the thousands of individual funds.

More than half of the Endowment's funds are managed by the University of Minnesota Foundation and the Minnesota Medical Foundation. The $1.2 billion CEF is managed by the University according to the federal Land Grant Act, provisions in state statute, and investment policies adopted by the publicly selected Board of Regents (see Figure 1).

Endowment distributions are an important source of funds for the University of Minnesota, but should be viewed in context of the institution's $2.6 billion annual budget, to which the Endowment contributes approximately five percent of total revenues, and the need to support a student population of more than 60,000.

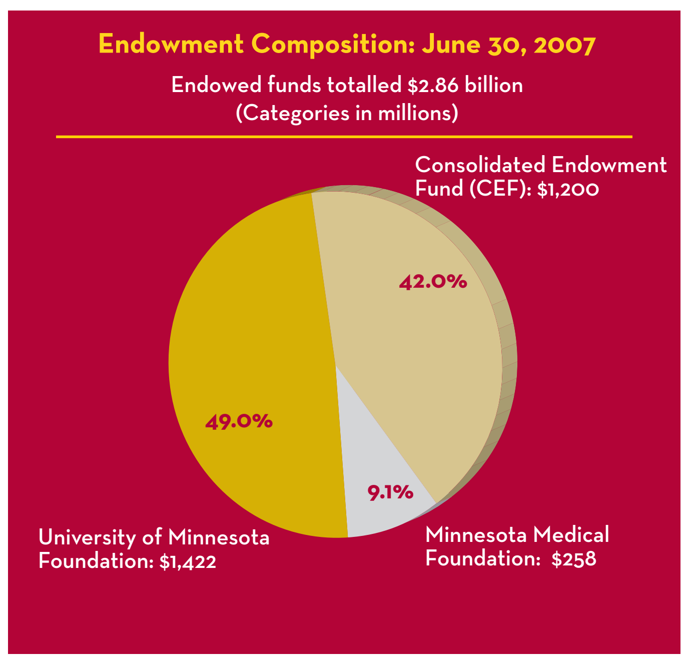

Figure 1

Endowment payout rates: mandated rates unnecessary, undermine stewardship

Investment: maintaining value for the future

The payout rate of the funds in the Endowment is carefully calculated so that funding will be of same or greater value to future generations when adjusted for inflation. Like most of its peer institutions, the University of Minnesota spends as much of the Endowment's earnings as it can while still preserving the inflation–adjusted value of the principal in perpetuity.

Investment of Endowment funds is carefully scrutinized, and although these investments have done well in recent years, they are not risk-free. The market value of the University of Minnesota endowment has decreased significantly when the stock market has declined. For example, the CEF declined by 32 percent from $836 million in March 2000 to $571 million in September 2001 (see Figure 2).

Flexibility in payout rates needed

Some in Congress have proposed mandating a payout rate of five percent for university endowments, comparing such a requirement to the mandatory rate now paid out by private foundations. Such an artificial, one-size-fits-all rule would undermine a university's stewardship of gifts according to the needs of future generations and the wishes of donors.

In order to ensure that their principal grows to meet future needs, CEF and University of Minnesota Foundation-managed funds in the Endowment are moving to a payout rate of 4.5 percent based on a rolling five year average value and the Minnesota Medical Foundation has decided to pay out at 4.75 percent. These rates have been set in order to manage risk to the principal of these different accounts over multiple decades, and they underscore the need for flexibility in payout rates even within one institution, not to mention across thousands of colleges and universities.

Accountability: public vs. private foundations

If anything, the pressures on colleges and universities push toward spending more of the endowments earnings on current purposes, to the potential detriment of sustaining the purchasing power of the endowment for a future when the cost of education, research and outreach will be higher.

As previously mentioned, donors nearly always specify a purpose for–or restrict–their gift, and the responsibility of the University and its foundations is to maintain the educational or other scholarly purpose of the gift in perpetuity. Many stakeholders and constituencies that play a role in ensuring that endowed dollars are used for their given purpose, including students, faculty, alumni, local residents, and government agencies.

In contrast, in the case of a private foundation, where a donor not only receives a tax advantage but also controls the gift and related spending, the public has an interest in ensuring that the private foundation is adequately serving its charitable purposes. Congress has determined that the best way to do this through a minimum payout requirement. For public foundations, such as those affiliated with the University of Minnesota, the donor relinquishes this control thus the same concern over donors benefiting from unspent charitable funds does not exist.

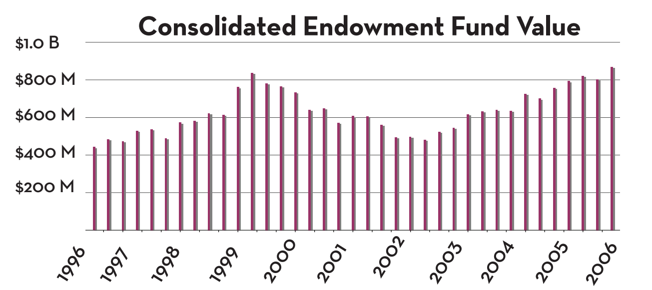

Figure 2

Endowments and students

The University of Minnesota has made student support the focus of its fundraising efforts and has created a program that covers all tuition and fees for all low-income resident undergraduates who are eligible for federal Pell grants.

- Today the University is in the midst of an aggressive scholarship effort called the Promise for Tomorrow Drive that has raised a record $200 million in gifts and pledges for student support during the past four years.
- To cover even modest tuition increases over the next six years an endowment 10 times the amount raised in this drive, dedicated solely to student support, would be required.
- Endowment distributions help minimize tuition increases because they provide funding for university needs and purposes that might otherwise be funded with tuition dollars.
- Roughly 11 percent of the CEF's annual distribution is already dedicated to student scholarships.
- The University recently introduced a long-term tuition plan that will make it more attractive to out-of-state students. In part the plan is intended to help Minnesota meet its human capital needs as the number of young people in our region levels off and declines at the end of this decade.