



Endowment spending rate higher than peers'

DARTMOUTH'S DEFICIT

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Although the decision by Dartmouth's previous administration to raise endowment spending in the 2009 fiscal year was part of a larger trend in higher education, the increase outpaced many of the College's peers and is now being reevaluated as the College's new administration moves to address the institution's budget gap. The decision to increase endowment spending — technically termed the endowment distribution rate — led the College to tap further into its investments just as the value of those investments declined precipitously.

The College will now reduce its endowment spending rate to about 5.4 percent, down from 6.3 percent, College President Jim Yong Kim said in his Tuesday presentation on Dartmouth's budget.

Kim said Sen. Charles Grassley, R-Iowa, levied "intense pressure" on institutions with large endowments to increase endowment spending to match the required private foundation endowment spending of at least 5 percent annually.

"He made the argument that this is not fair in terms of inter-generational equity," Kim said in the presentation. "In other words, he argued that hoarding your endowment to benefit future generations of students is not fair. You should let the current generation of students also benefit from the rapid growth of the endowment. So spend more, spend more, spend more."

Endowment expenditures should remain between 4.5 and 5.5 percent, Kim said in an interview with the Dartmouth Editorial Board on Tuesday.

"I was not in the room when those decisions were made," Kim said, referring to the decision to increase endowment spending last year. "I understand the impulse to take advantage of a rapidly growing endowment, an endowment that was growing well over 10 percent every year, and trying to do good things for students and faculty. I understand the impulse, but now that we have seen what has happened with the endowment, I just don't think we can continue down that path."

Several of Dartmouth's peer institutions also increased their endowment spending in response to Grassley's criticism. Yale University increased its endowment spending to 5.25 percent during the 2008 fiscal year, partially in response to "congressional interest," Yale President Richard Levin told

Bloomberg News in 2008.

Yale is continuing to increase endowment spending, and Yale administrators anticipate that the university's rate of spending will hit approximately 6 percent in 2011 and 2012, the Yale Daily News reported in January. The Yale Corporation, Yale's governing body, prohibits the endowment spending rate from exceeding 6 percent. Administrators said that spending more than 6 percent of the endowment annually would seriously devalue the funds, according to the Daily News.

Harvard University officials predict that the institution's fiscal year 2010 endowment distribution rate will be approximately 6 percent, the institution's highest rate in the past four decades, The Wall Street Journal reported in January.

Yale and Harvard's endowments have each lost approximately 30 percent of their value in recent months. Dartmouth's endowment declined by 23 percent in the 2009 fiscal year.

Columbia University, which spent 4.5 percent of its endowment in the fiscal year 2009, saw an endowment loss of 16 percent by the end of June, according to the Columbia Daily Spectator.

Neal McCluskey, associate director of the Center for Educational Freedom at the libertarian Cato Institute, said that Grassley's initiative — originally targeting only 75 to 150 institutions with endowments greater than \$500 million — was largely a political move.

“Endowment hoarding is a minor side-show in what is driving the massive costs of education,” McCluskey said in an interview with The Dartmouth. “It's easy to demonize schools with big endowments as scrooge types. The real problem is that it didn't come close to addressing the core problems in education, so it's not going to fix these problems in the economy or education or anything like that.”

Lynne Munson, the executive director of the education nonprofit Common Core, said that institutions are wrong to hoard their endowments, particularly after they experience dramatic endowment increases.

“Schools are serving the public poorly by not using their endowments more,” Munson said. “We're still in a depression-era mentality of treating endowments as untouchable treasure chests.”

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