

United States Senate
Committee on Finance



Sen. Chuck Grassley · Iowa
Ranking Member

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*****Please note: This is embargoed until Jan. 28, 2010, at 12:01 a.m. EST, in keeping with NACUBO's embargo.*****

MEMORANDUM

To: Reporters and Editors
Fr: Jill Gerber for Sen. Grassley, 202/224-6422
Re: College endowment survey
Da: Wednesday, Jan. 27, 2010

Sen. Chuck Grassley, ranking member of the Committee on Finance, with jurisdiction over tax policy, made the following comment on the annual survey on college endowments from the National Association of College and University Business Officers (NACUBO). Grassley is interested in whether universities maximize their tax-exempt status to help students, in keeping with their charitable mission.

“I hope colleges won’t rely on double-digit losses as a reason to raise tuition or freeze student aid. Many of them relied on some risky investments, like hedge funds, to get big gains in recent years, and now those strategies are causing losses. Students shouldn’t bear the brunt of colleges’ easy-come, easy-go investment strategy. A lot of colleges still have plenty of money in the bank. Pay-out rates over the last decade rarely topped 5 percent, even when investment returns were in double digits.

“There’s inconsistency in pay-out requirements for tax-exempt organizations. Private foundations generally have to pay out 5 percent of their assets a year to other charities. Other types of asset-accumulating charities – such as endowments, donor-advised funds, and certain supporting organizations – don’t face any pay-out requirement. One idea is to make the pay-out requirements consistent. The thinking is that since these organizations are allowed to accumulate money tax-free for their charitable purpose, they should have to spend at least a small amount fulfilling that purpose. That makes sense as a point of accountability. Tax-exempt entities are given special status in exchange for performing good works. A minimum pay-out requirement would help them keep their end of the bargain. It’s important to get the formula right to accommodate market and asset accumulations from year to year. The right formula would work with economic fluctuations.”