



University Endowments – A UK/US Comparison

Discussion Paper

May 2003

Executive Summary

In its higher education White Paper, the Government suggested that “the way forward is through endowment. This will make the sector less dependent on any single source of funding”. This paper considers the current situation with regard to UK universities’ endowments, and compares it with that in the US.

The differences between the UK and the US could not be more stark. Only Oxford and Cambridge can be compared with the best endowed US universities: either Oxford or Cambridge (with endowments of £2 billion each) would come 15th in the US list, while no other UK university would come in the top 150. Only 5 UK universities have endowments worth at least £100 million, compared with 207 US universities. The average top 500 US university has about fifteen times the endowment of the average top 100 UK university.

All other indicators tell the same story. Both in terms of endowment per student, and the income generating potential of the universities’ endowments, UK universities are an order of magnitude behind their US counterparts. Yale’s endowment can sustain an income of £330 million, i.e. £30,000 per student, annually, whilst Imperial College London’s sustainable income from endowment is just £2.4 million, or £240 per student.

What is perhaps surprising is that the US universities have only created these enormous endowments over the last

20 years, with substantial growth occurring in the last eight years. Twenty years ago, Harvard was the only university with an endowment of over \$1 billion, whereas now there are thirty-nine. While it may not, therefore, be out of the question for UK institutions to generate significant endowments, this will not happen without considerable change.

This relative disadvantage faced by UK universities is further compounded by the fact that, in addition to much higher endowment levels, US universities also receive much higher unit funding per student. The average state university receives £7,500 per student, the average private university £11,000 and the top privates £16,000, compared to a funding level of £5,000 per student for a UK university. Because of year on year real funding increases in the States, and year on year declines in the UK, this is a reversal of the situation 20 years ago when funding levels were much higher in the UK: £10,000 per student in today’s money compared to £6,000 for a US private university. In 2006 the UK Government will allow universities to charge top-up fees, and for those that elect to do so, this will raise unit funding up to a maximum of £7,000. However, this will still be well below projected funding levels for US universities.

In addressing the endowment question, consideration should firstly be given to making charitable giving less complex, and moving to the US system

where donations are deducted directly from income and the donor claims back all the tax. Secondly, there needs to be a cultural shift in attitudes to charitable giving, which is currently at only 0.6% of GDP in the UK, compared with 2% in the US. Thirdly, universities need to give fundraising a much higher priority which requires focused leadership and active participation by Vice-Chancellors and senior managers as well as recruitment and training of high calibre fundraisers. Only then will endowment income really provide 'the way forward' for university funding.

Introduction

The White Paper states that "the way forward is through endowment. This will make the sector less dependent on any single source of funding". It states that endowment funds can be used to "invest in new facilities; . . . pay for specific chairs or general academic posts; undertake research, and pay researchers competitively and create scholarship funds". The White Paper also compares the endowment situation in the US and the UK, comparing Harvard's \$18 billion, Yale's \$11 billion and Princeton's \$8 billion endowments with the £2 billion endowment of Oxford and its colleges. This report looks in more detail at this comparative perspective, discussing the UK universities' situation in this context.

All figures referred to in this report refer to total university endow-

ments. However, it is important to acknowledge that a proportion of all universities' endowments are restricted to specific uses, and not all of the quoted amounts are available for general funding purposes. On the other hand, many donations, such as annual giving, are not for endowment purposes and these are not reflected in the endowment figures.

Data about UK universities comes from the *Higher Education Financial Yearbook* (2002), which uses the universities' annual reports and accounts. They were the latest available figures when they went to press, but not all figures may be from the same financial year. Data about US universities is from the *Chronicle of Higher Education* (www.chronicle.com), and is researched by the National Association of College and University Business Officers.

Comparison of Endowment Levels

One of the major differences between Higher Education in the UK and the US is the substantial endowments many American universities have established, the returns from which give them a much greater degree of financial autonomy than their British counterparts. The table opposite shows the ten largest university endowments in both countries.

These differences are striking, and the discrepancies continue further down

Comparison of Endowment Level

	United Kingdom (2002)	£m
1=	Cambridge	2,000
1=	Oxford	2,000
3	Edinburgh	160
4	Glasgow	120
5	King's	100
6	Liverpool	93
7	Manchester	90
8	UCL	81
9	Birmingham	65
10	Surrey	59

	United States (2002)	£m ¹
1	Harvard	10,700
2	Yale	6,600
3	University of Texas	5,400
4	Princeton	5,200
5	Stanford	4,800
6	MIT	3,400
7	Emory	2,800
8	Columbia	2,600
9	University of California	2,600
10	Texas A&M	2,300

the list. Only Oxford and Cambridge² can be compared with best endowed US universities: either Cambridge or

Oxford would come 15th in the US list, and no other UK university would come in the top 150. Surrey (10th in the UK),

¹ All US figures have been converted at £1 = \$1.60.

² The figure for Oxford is an estimate of the total endowments of the university and colleges from *The Future of Higher Education* White Paper. The figure for Cambridge is a best estimate, as quoted in the *Times Higher Educational Supplement*.

would come just 305th in the US. Only 5 UK universities have endowments worth at least £100m, compared with 207 US universities. Except for Oxford and Cambridge no British university has a significant endowment when judged by American standards.

To try and provide a more systematic comparison, we analysed the top 100 UK universities and the top 500 US institutions. The average top 500 US University had about fifteen times the endowment of the average top 100 UK university, excluding Oxbridge which distorts the picture.

Many US universities have substantial endowments, whilst it is estimated that over 70% of UK universities' endowment funds are held by Oxford or Cambridge. Indeed, it is estimated that the Oxbridge colleges collectively have a 50% greater endowment than the other top 100 universities combined. The London School of Economics and Imperial College, recognised as world-class universities, have endowments of just £38 million and £49 million respectively.

A misconception is that the best endowed American universities are

	Top 500 UK (£m, 2002)	Top 100 US (£m, 2002)
Total	5,700	137,400
Average (per institution)	57	275
Average (without top two)	17	241
% of total held by top 2	70%	13%

A vivid illustration of the differences between the two countries is that the total value of the endowments of the top 500 American universities decreased by £5.8 billion in the year 2001-02. This decrease is greater than the combined total endowments of all UK universities.

These figures emphasise the great gap between the two countries. Whilst Harvard's \$18 billion endowment is often quoted, US endowments also show much greater 'strength in depth'.

huge institutions. Whilst the University of Texas does have almost 50,000 students, it is the exception rather than the rule. In fact, Princeton and Yale combined are smaller than Edinburgh and King's College, London, and only slightly larger than Cambridge or Oxford. A comparison on these terms is best illustrated by calculating endowment per student, and the table opposite shows the endowment per student of the five universities with the largest endowments in 2002.

Comparative Endowment per Student

	United Kingdom	Students	Endowment / student (£)
1	Cambridge	16,700	119,800
2	Oxford	16,800	119,000
3	Edinburgh	17,600	9,000
4	King's	17,600	6,700
5	Glasgow	15,300	6,500

	United States	Students	Endowment / student (£)
1	Princeton	6,400	812,500
2	Yale	11,100	592,500
3	Harvard	19,500	550,300
4	Stanford	13,300	357,800
5	Texas	49,400	109,200

Growth in Endowments

What is perhaps surprising about the US is that these massive endowments have been created only in the last 20 years. As the *US Chronicle of Higher Education's* 2003 survey of endowments notes, "Twenty years ago, colleges tended to view their endowments as rainy-day funds. In 1981, Harvard University was the only single-campus institution to have outgrown the convention of measuring institutional wealth in millions. Its endowment weighed in at \$1.7 billion. Two decades later, unprecedented fund-

raising success and spectacular investment returns have expanded the universe of billion-dollar endowments to 39. Harvard's endowment had grown to \$18 billion as of last year – a couple of hundred million more than the combined values of the 192 institutions that participated in the 1981 endowment survey."³

US endowments have seen a particularly sharp increase in the past eight years compared to UK endowments. As the tables overleaf show, 8 of the top 10 US universities have more

³ J. Pulley, "Another Downer of a Year for College Endowments", *US Chronicle of Higher Education*, 24 January 2003.

Growth in Endowment Levels 1994

	United Kingdom	1994 (£m)	2002 (£m)	% increase
1	Cambridge ⁴	360	660	83
2	Oxford ⁴	230	470	104
3	Edinburgh	92	160	74
4	Glasgow	71	120	69
5	King's	16	100	525
6	Liverpool	57	93	63
7	Manchester	66	90	36
8	UCL	41	81	98
9	Birmingham	39	65	67
10	Surrey	39	59	51
	Top 10, aggregate	1,019	1,897	86

	United States	1994 (£m)	2002 (£m)	% increase
1	Harvard	3,900	10,700	174
2	Yale	2,200	6,600	200
3	University of Texas	2,800	5,400	93
4	Princeton	2,200	5,200	136
5	Stanford	1,700	4,800	182
6	MIT	1,100	3,400	209
7	Emory	1,100	2,800	155
8	Columbia	1,100	2,600	136
9	University of California	1,200	2,600	117
10	Texas A&M	1,230	2,300	87
	Top 10, aggregate	18,530	46,400	150

⁴ The figures for Oxford and Cambridge in this table exclude the colleges.

than doubled their endowments over the 8 year period, and three have trebled theirs. Whilst the picture for the UK is also good, it is more mixed, and only two universities – Oxford and King’s, London – have doubled their endowments. In aggregate the top ten university endowments in the US have increased by 150%, compared to 86% for the UK.

The Importance of Endowments

The significance of a substantial endowment is of course the amount of income it can generate for an institution, and here again the differences between the US and the UK are stark. Assuming a sustainable return from endowments of 5% annually, Imperial College would receive only £2.4 million of income, while Yale, which is slightly bigger than Imperial, would receive £330 million per year, or £30,000 per

student. Whilst it is difficult to generalise about the amount of money universities actually receive from their endowments, according to the *Higher Educational Financial Yearbook* only seven UK universities (including the Royal Academy of Music and the Royal College of Music) receive more than 5% of their income from this source, and three-quarters of UK universities receive less than 2% of their income from endowments. Imperial College actually receives less than 1% of its income from endowments.

The importance of substantial endowment to universities’ funds is suggested when one compares the top-ranked US institutions with the best-endowed institutions. As shown in the table below, the endowment per student ranking mirrors the national university ranking. While the causal nature of the relationship between finance and quality is of course complex, the closeness of the fit between the two is striking.

US University Ranking ⁵	Endowment per student ranking	Endowment per student (£)	Alumni giving rate ⁶
1 Princeton	1 Princeton	812,500	64%
2= Yale	2 Yale	592,600	45%
2= Harvard	3 Harvard	550,300	47%
4= Stanford	4 Stanford	357,800	39%
4= MIT	5 MIT	335,000	46%

⁵ “Best national universities – doctoral”, *America’s Best Colleges* p. 82, US News and World Report, 2003. The university rankings do take into account financial resources, but the overall effect of including such a measure is fairly insignificant.

⁶ *America’s Best Colleges*, US News and World Report, 2003

A Way Forward for the UK

As the White Paper points out, however, to achieve similar success in the UK, “will require a significant change in attitude from donors, including alumni”.

The White Paper talks about match-funding for endowment giving but with no concrete proposals it is not clear how such a mechanism would work. It seems unlikely that the government would be able to or would want to offer unlimited match-funding. Careful consideration should be given as to whether public spending on match-funding endowments is the best way of using additional resources.

The government could make charitable giving considerably simpler by replacing the gift aid scheme, which is unnecessarily complicated, with one where donations are deducted directly from income, as in the US. In the UK, if the donor gives £1 million to a university, the donor and the university share the tax claimed back. In the US, the donor claims back all the tax, which provides a significant additional incentive to give.

However, while extremely significant, tax breaks are only part of the story. Charitable giving in the US is 2% of gross domestic product compared to

0.6% in the UK⁷. Alumni giving rates at top American universities are extraordinarily high: 64% for Princeton, for example, and 47% for Harvard. At Cambridge, just 5% of alumni give on a yearly basis, while information from the Council for Advancement and Support of Education (CASE) indicates that no UK university has so far reported a participation rate from alumni donors of more than 8% while a number of universities have yet even to seek support from their alumni constituency.⁸

US universities tend to be much better than their UK counterparts at generating a sense of community amongst their alumni. Professor Charles Clotfelter of Duke University, North Carolina, suggests that this sense of identification – especially with an individual who helped them as a student – is a key motivator for giving.⁹ US universities offer annual reunions and other events, as well as social and employment networks. This fosters a sense of continued belonging to the university after graduation. They also track students’ extracurricular activities, so they can encourage alumni to donate to groups or teams of which they were members. It is interesting to note that the collective endowments

⁷ L. Hems (Director of Research, The Institute for Philanthropy,) “Worthy Causes: What do donors give to?”, published in ed. C. Walker and C. Pharoah, *A Lot of Give*, 2002.

⁸ C. Sanders, “Alma maters hit the phones to plead with old boys and girls”, *Times Higher Education Supplement*, 3 May 2002. CASE is a non-profit membership organization for education professionals working in alumni relations, communications and development. See www.case.org

⁹ C. Clotfelter, “Alumni Giving to Elite Private Colleges and Universities”, November 2001.

of the Oxbridge colleges – which are much more able to instil a spirit of community – are much greater than their universities.

The opportunity to benefit from events and networks also reinforces an element of self-interest in the giving. In the US, therefore, universities benefit from a situation in which giving can be both altruistic and, crucially, self-interested. Alumni with the inclination to give can be bolstered by the knowledge that donations will be tax-efficient, they will be able to tap into a number of services through becoming a donor, and that they are helping to improve the financial position and hence reputation and ranking of their alma mater.

Universities should be encouraged to develop their alumni activities as a matter of priority, learning from best practice both in the UK and the US. Using current undergraduates as fundraising ambassadors has been shown to be an effective and efficient means of attracting donations. The use of telephone, and other individual, targeting is still in its infancy in the UK, but sophisticated methods such as these form a crucial (and cost-effective) part in any US campaign. Additionally, most US universities set high-profile general appeals targets. This is still an under-developed strategy in the UK,

but in some instances has proved successful (e.g. the *Campaign for Oxford*, which set a target of £220m and raised £340m)¹⁰.

Even in America, with its ‘mass giving culture’, there is a heavy reliance on very generous gifts from a small minority of donors. Clotfelter’s research demonstrates that over half the total value of alumni donations come from 1% of alumni, showing the need to prioritise some donors and seek to foster close links with them.

In order to develop these personal relationships whilst also approaching all alumni, universities need to give fundraising a much higher priority. This requires strong, focused leadership and active participation from senior managers and Vice-Chancellors, as well as the recruitment and training of high calibre fundraisers. Expenditure on fundraisers should be seen as an important investment. The majority of the UK universities with the highest endowments have already gone some way towards this.

It is questionable whether the UK can ever match the levels of giving seen in the US. However, as alumni giving on this scale is a recent phenomenon in the US, there may still be some hope for British universities.

¹⁰ N. Crequer, “Cheque-book education”, *Times Higher Education Supplement*, 4th November 1994.



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