HEARING ON TAX-EXEMPT COLLEGE AND UNIVERSITY ENDOWMENTS

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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HEARING ON TAX-EXEMPT COLLEGE AND UNIVERSITY ENDOWMENTS

TUESDAY, SEPTEMBER 13, 2016

U.S. House of Representatives,
Committee on Ways and Means,
Washington, DC.

The subcommittee met, pursuant to call, at 10:04 a.m., in Room 1100, Longworth House Office Building, the Honorable Peter Roskam [chairman of the subcommittee] presiding.

[The advisory announcing the hearing follows:]

COMMITTEE ON WAYS AND MEANS CHAIRMAN KEVIN BRADY

Chairman Roskam Announces Hearing on Tax-Exempt College and University Endowments

House Committee on Ways and Means Subcommittee on Oversight Chairman Peter J. Roskam (R-IL) today announced that the Subcommittee will hold a hearing entitled "Back to School: A Review of Tax-Exempt College and University Endowments." **The hearing will take place on Tuesday, September 13, 2016 at 10:00AM in Room 1100 of the Longworth House Office Building.**

Oral testimony at the hearing will be from the invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

Details for Submission of Written Comments:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Tuesday, September 27, 2016**. For questions, or if you encounter technical problems, please call (202) 225-3625 or (202) 225-2610.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at http://www.waysandmeans.house.gov/

Mr. ROSKAM. The hearing will come to order. Welcome to the Ways and Means Oversight Subcommittee hearing entitled "Back to School: A Review of Tax Exempt College and University Endowments."

Mr. LEWIS. Mr. Chairman.

Mr. ROSKAM. Mr. Lewis.

Mr. LEWIS. Will you yield for a moment?

Mr. ROSKAM. Be delighted.

Mr. LEWIS. Mr. Chairman, I understand that today is your birthday. And before we go on, I think we should just wish you a wonderful and happy birthday. Now, I will not sing, because I cannot carry a tune, but happy birthday, Mr. Chairman.

Mr. ROSKAM. Thank you very much. I appreciate that and look forward to us working together. And thank you very much for your kindness. I appreciate it.

We have got some work to do today, and it is work that is good work. We know that a year ago, the subcommittee heard from a panel of witnesses about how tuition and student debt loads were spiraling out of control. From 1980 to 2014, the average college tuition increased 260 percent. I mean, that is a number that just takes your breath away.

We on this subcommittee don't need a panel of experts to tell us that, because we hear that when we go home. Both sides of the aisle, we hear this with some frequency and with some regularity. And there is a level of anxiety that is being communicated to us by our constituents that is just palpable. That is, parents are feeling like this notion of sending children to school is becoming more and more and more difficult.

And in addition to the tuition that they pay, those same parents, along with the rest of American taxpayers, are giving subsidies to colleges and universities via tax exemptions. Tax policy benefits these institutions in numerous ways. For starters, people who donate to colleges and universities can write off those donations. The schools don't have to pay tax on those gifts, and any investment earnings from those gifts are tax free as well.

Given families' concerns and the big tax benefits colleges and universities get from taxpayers, the Ways and Means Committee believes it is important for us to keep learning about how these schools are working to fill their charitable and educational purposes.

Today's hearing will be an educational experience for our members and for the public. Following on our hearing from last October, we will be learning more about what is driving tuition increases. We will also be hearing about what some institutions are doing to reduce costs for their students. Some of these ideas are really exciting, and they go to show that this entrenched idea, that is that tuition has to go up each and every year, is not gospel. It doesn't necessarily have to happen.

Schools can do creative things to reduce their administrative overhead, to develop alternative funding arrangements so students don't have to borrow as much, and to reward middle-class families that save for the future instead of penalizing them with high tuition. Imagine this, some schools have actually frozen their tuition, and one college we will hear from doesn't even charge tuition.

As we have engaged in dialogue with colleges and universities over the past few years, we have learned a lot. We have learned that institutions are differently situated from each other, and that one-size-all policy solutions may not be the answer. But we have also learned that when institutions prioritize helping their students in creating efficiencies on campus, they can find creative ways to make it happen.

We look forward to hearing about some of those ideas today and hearing from experts who will provide us insight into ways that Congress can encourage universities and colleges in these endeavors.

Before I introduce our panel of witnesses, I would like to recognize and yield to my friend from Georgia, the ranking member, Mr. Lewis, for his opening statement.

Mr. LEWIS. Thank you, Mr. Chairman, for yielding.

Good morning. I would like to thank the chairman for holding today's hearing on tax-exempt college and university endowments. As many of you know, my congressional district is metro Atlanta. It is home to many universities and colleges. Spelman, Moorehouse, Georgia State, Clark Atlanta, Georgia Tech, Agnes Scott, and Emory are just a few of the more than 80 great institutions of higher learning in our community.

Across the country, colleges and universities have trained and prepared the next generation of scientists, teachers, doctors, nurses, architects, and engineers. Graduates are the future business owners, thinkers, creators, and leaders of our Nation.

In addition, many colleges and universities are research centers where experts and students search for cures to diseases like cancer, HIV–AIDS, and alternative energy sources and new technologies. Their work puts us on the path to greener, cleaner, and healthier possibilities for a generation yet unborn across the United States and around the globe.

It is important to remember the real impact and benefit of higher education for real people. In 2015, the average weekly earning of a college graduate was over 60 percent higher than the worker with just a high school education. Simply said, education is the fastest path to the middle class. Education is the key. Education is the great equalizer.

In light of the decreasing State support, it is more important than ever that the Federal Government helps to keep open the doors to higher education. Republicans and Democrats must fully support Pell Grants and student loan programs that make school affordable, and Federal student aid and tuition repayment program must be fully funded. We must do our part. We must play a role and play it well.

We have a duty and obligation to help make higher education the real thing. We have a moral responsibility to make college accessible to all who aspire.

I look forward to hearing from today's witnesses on what we can do to keep the dream of education within the reach of all of our citizens. It is the right thing to do. It is the fair thing to do. Thank you for being here.

I yield back, Mr. Chairman.

Mr. ROSKAM. Thank you, Mr. Lewis.

And I think, following up on that theme that Mr. Lewis articulated, that education is the key, we have got five witnesses that are going to give us some insight and perspective to try and help us to play the role that we need to play the role in the Tax Code to make sure that we are part of that, because I think everybody agrees that education is the key. And as Mr. Lewis mentioned, education is a great equalizer.

So today's witness panel includes Dr. Neal McCluskey, who is the director of the Cato Institute's Center For Educational Freedom; Sheila Bair, president of Washington College; Jeff Amburgey, vice president of finance for Berea College; Dr. Mark Schneider of the American Institutes for Research; and Dr. Sandy Baum, a senior fellow at the Urban Institute's Income and Benefits Policy Center.

Each of you, we have received your written testimony, and that is part of the record. We have reviewed your written testimony as well. But each of you have 5 minutes to present to the committee, and then our inquiry will begin.

So, Dr. McCluskey, you are recognized for 5 minutes.

STATEMENT OF NEAL MCCLUSKEY, DIRECTOR OF THE CENTER FOR EDUCATIONAL FREEDOM, CATO INSTITUTE

Mr. MCCLUSKEY. Thank you, Chairman Roskam, Ranking Member Lewis, Members of the Committee. Thank you for inviting me to speak with you today. My name is Neal McCluskey. I am the director of the Center for Educational Freedom of the Cato Institute, a nonprofit, nonpartisan public policy research organization. My comments are my own and do not represent any position of the institute.

I have been asked to provide something of an overview of the Nation's college price problem. Why do people believe we are in a college cost crisis, as the term often used? Well, as you know, as you have already said, the country has seen an unremitting increase in college prices for about the last 35 years and with it, greatly increasing student debt.

There are three common explanations for this problem. The first is "cost disease." Industries relying on labor see their costs rise because they cannot replace labor with technology while their workers must get paid more, lest they move the job where more pay, enabled by greater productivity, is available. If you want to perform Beethoven, you need the same number of players as in Beethoven's day.

There is a problem with this. While putting on a live performance may require the same inputs as in Beethoven's era, getting music to people has become much easier with records, tapes, Internet. Technology has massively increased productivity. Colleges, like orchestras, are heavily dependent on skilled labor, but like musicians, the reach of any given professor could be hugely expanded via the Internet especially.

The second major explanation for the price problem is that schools must raise prices to make up for cuts to State support. Over the last 25 years there have been decreases in inflation-adjusted, per-pupil State and local appropriations to public colleges. State and local governments have, however, actually increased total appropriations.

What explains the per-pupil drop is big enrollment increases. When per-pupil appropriations are compared to per-student revenue through tuition and fees, we can get an idea how much public schools might have raised prices to make up for lost appropriations. Smoothed trend lines suggest that for every 53 cents lost in appropriations, the average State schools brought in about a dollar through tuition and fees.

Tuition and fee lines are also smoother than appropriations, suggesting that much of the pricing is on kind of automatic pilot. Further hurting the State-funding explanation is that private institutions have also seen major price increases.

The last major explanation is that student aid, especially from D.C., lets colleges raise prices. Proving this is difficult, in part because it is hard to know to what extent necessary expenditures are driving prices or colleges are just maximizing revenue. At least 13 studies have indicated that student aid leads to various effects that reduce the value of aid to students.

On the demand side, colleges supply costly amenities and programs because heavily subsidized students demand them. Of course, schools do not have to raise prices, but people in colleges always feel there is something useful they can do. This is the basis for what is called Bowen's Law, named after former Grinnell College and University of Iowa President Howard Bowen, which says essentially, that in pursuit of prestige and other goods, colleges will take every dollar they can get.

The solution is, I think, actually to phase out Federal aid, making people pay with their own money or funds they get voluntarily from others. That said, there does not currently seem to be much appetite for this.

So let's look at four proposals that appear to be feasible in the near term. The first is requiring greater endowment payouts. Why should colleges stockpile money and charge high prices? I think the first problem with this is that endowment funds are often restricted and may not be easily directed to financial aid. More important, few institutions have very large endowments. Among 4,627 degree-granting postsecondary institutions, only 95 have endowments exceeding $1 billion. Endowment earnings would also be an unpredictable source of funding, because they go up and down.

Then there is free college proposals. Washington would essentially incentivize States with matching funds to increase their subsidies to public colleges. While such proposals might lower prices, it is likely that large Federal expenditures would be needed to goose large State expenditures. Free college would also likely exacerbate higher education's huge noncompletion problem.

There are also income share agreements in which investors would fund students for a percent of their income over a set amount of time. Investees earning little would not be burdened with unaffordable payments, because they earn more, and they and their investors would make a lot. From a borrower's perspective, it is like an income-based loan repayment, but an investor can earn more than a traditional lender.

Where ISA is a government program open to anyone to cover any price, as essentially the case with Federal loans, they would have no price-dampening effect, moving third-party money to students. And as long as Federal loans with generous terms existed, ISAs would struggle for students who expect substantial earnings.

Finally, we have skin-in-the-game proposals. Many people propose that colleges pay a percentage of their graduate's debt if their default rates exceed a certain level. There are big challenges to this. First, institutions that take the highest-performing students would be in no jeopardy, while schools taking students on the margins may do yeomen's work, but would be open to serious penalties.

And schools going out of business could cost students on the margins to go to the schools where there are enough high-earning students and high-achieving students to hide them, but those students may do no matter.

Rational pricing requires consumers paying with their own money or funds received voluntarily from others. Requiring greater endowment payments or other proposals do little to address this.

Thank you, and I look forward to your questioning.

[The prepared statement of Mr. McCluskey follows:]

Committee on Ways and Means
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

Your Name: Neal McCluskey		
1. Are you testifying on behalf of a Federal, State, or Local Government entity? a. Name of entity(ies). b. Briefly describe the capacity in which you represent this entity.	Yes ☐	No ☒
2. Are you testifying on behalf of any non-governmental entity(ies)? a. Name of entity(ies). b. Briefly describe the capacity in which you represent this entity.	Yes ☐	No ☒
3. Please list any Federal grants or contracts (including subgrants or subcontracts) which you have received during the current fiscal year or either of the two previous fiscal years that are related to the subject matter of the hearing: None		
4. Please list any grants, contracts, or payments originating from foreign governments which you have received during the current calendar year or either of the two previous calendar years that are related to the subject matter of the hearing: None		
5. Please list any offices or elected positions you hold. None		
6. Does the entity(ies) you represent, other than yourself, have parent organizations, subsidiaries, or partnerships you are not representing? N/A	Yes ☐	No ☐
7. Please list any Federal grants or contracts (including subgrants or subcontracts) which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal years, which exceed 10 percent of entity(ies) revenues in the year received. Include the source and amount of each grant or contract. Attach a second page if necessary. N/A		
8. Please list any grants, contracts, or payments originating from foreign governments which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal		

Mr. ROSKAM. Thank you.
Ms. BAIR.

STATEMENT OF SHEILA BAIR, PRESIDENT, WASHINGTON COLLEGE, CHESTERTOWN, MARYLAND (FORMERLY CHAIR OF THE FEDERAL DEPOSIT INSURANCE CORPORATION)

Ms. BAIR. Chairman Roskam, Ranking Member Lewis, Members of the Committee, it is a pleasure to be here.

About a year ago, I became the president of Washington College, a private, nonprofit liberal arts college in Chestertown, Maryland. Of our 1,481 undergraduates, 90 percent of them receive some form of scholarship assistance. But like college students nationwide, it is never enough to cover the cost of their college education.

For those who must borrow, the national average debt load upon a 4-year graduation is $28,950. Though this level of borrowing can be justified based on the increased earnings potential that comes with a 4-year degree, it is still too high. I am very proud that we were able to reduce our 2016 seniors' average Federal debt level by 10 percent through increased scholarship funding during the first year of my presidency.

This hearing on college endowments and their relationship to the affordability issue is timely as students around the country are returning to campus and we are in the middle of College Savings Month. To any new parents in the chamber, I say start saving now.

The cost of higher education has increased more rapidly than that of food, shelter, and medical care for the current generation of college students. Tuition at private 4-year colleges has increased an average of 4.7 percent a year since 2000, far outpacing the average inflation rate of 2.2 percent.

One recent analysis showed that real wages for the typical college graduate have risen only 1.6 percent over the past 25 years while their average student debt over a 4-year graduation has grown by a whopping 163.8 percent.

The committee invited me to appear today to talk about what we are doing at Washington College about affordability. We have adopted a multipronged approach.

First, we are increasing philanthropy. Earlier this summer, we celebrated a record year for fundraising, bringing in almost $23 million dollars. With our encouragement, most of our major gifts last year were for scholarship, and all of our unrestricted smaller gifts went to financial aid.

I like to say that giving to endow a scholarship is more endearing than giving to bricks and mortar. We need both, but we always need more scholarships.

Financial aid is especially vital for first-generation college students, whose families often require the most assistance in paying for their education. That is why our second initiative is George's Brigade. This is a full scholarship program for high-performing first-generation students whose families would otherwise not have the resources to pay for a private liberal arts education. Members of George's Brigade have their full financial needs met, including tuition, room and board, and fees. If students wish to borrow for incidental expenses, the program requires that they limit their loans to $2,500 per year.

Dam the Debt, another program in our arsenal, reduces the debt of all Washington College graduating seniors holding federally subsidized loans in their final semester. As a result of Dam the Debt, 119 qualifying seniors from 15 States received enough money to erase the federally subsidized loans they had taken out in the spring of 2016. This average reduction was $2,630.

Our Savers' Scholarship, which was recently announced, will match the amount that families withdraw and use from a 529 college savings plan or an educational savings account up to $2,500 per year to pay for their student's tuition. We recognize that not all parents have the capacity to save, which is why we have initiated other programs like George's Brigade. But for those who can save, we think that type of advance financial management and planning should be rewarded with a Savers' Scholarship.

Finally, we froze tuition, which is a rare trend, unfortunately, among liberal arts colleges. We are among a very small fraction of colleges that did so, and we are product to have frozen our tuition, which helped all of our students.

In addition, we are looking at income share agreements. I am really inspired by the president of Purdue, Mitch Daniels, who has been a leader in college affordability for public universities. He has compiled an amazing record, and including launching recently an income share agreement arrangement.

I think if we want to access college financing to be broadly accessible, we need to move away from a debt financing model to an equity financing model. And I would disagree, ISAs are not debt, they are equity. It is very different. And perhaps we can get more into that discussion when we get to the Q&A.

And finally, last but not least, certainly, I think the committee is very right to be looking at college endowments. I can think of no better purpose for endowment income than scholarships. I would love to have a billion-dollar endowment, I am jealous here, but we don't. A 5 percent draw would be $50 million, that would be 80 percent of our budget, and I would slash tuition accordingly.

Regrettably, we only have about $200 million. But we do adhere to a 5 percent spend rate. Actually, our policy has been a 5.5 percent over the last few years. And I am proud to say that 60 percent of our endowment draw is dedicated to scholarships, and I hope that percentage will increase even more during my presidency.

Thank you very much.

[The prepared statement of Ms. Bair follows:]

WASHINGTON COLLEGE

TESTIMONY OF SHEILA C. BAIR, PRESIDENT

WASHINGTON COLLEGE

BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON OVERSIGHT

September 13, 2016

Chairman Roskam, Ranking Member Lewis, and members of the Committee, it is a pleasure to be here. About a year ago, I became the President of Washington College, a private, nonprofit liberal arts college in Chestertown, on Maryland's Eastern Shore. Of our 1481 undergraduates, 90 percent of them receive some form of need-based financial aid or merit-based scholarship assistance, but like college students nationwide, is never enough to cover the cost of their college education. For those who must borrow, the national average debt load upon graduation is $28,950. Though this level of borrowing can be justified based on the increased earnings potential that comes with a four-year degree, I am very proud that we were able to reduce our 2016 seniors' average debt levels by 10% through increased scholarship funding during the first year of my presidency.

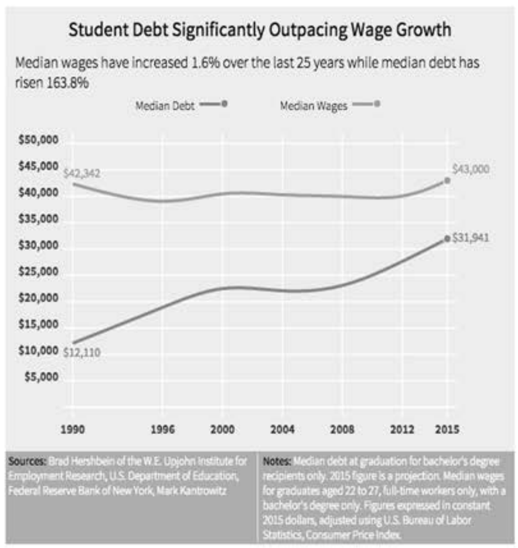
Since accepting the presidency of Washington College, I have been monitoring the growing problem of student loan debt in our country, which now exceeds $1.3 trillion. Unfortunately, I see many parallels to the sub-prime mortgage crisis. **Lack of underwriting standards** means that we're not considering whether the borrower can repay. **With negative amortization**, some repayment plans have students falling farther behind because their payments aren't enough to cover the compounding interest**; growing loan default and non-payment rates** force taxpayers to pick up the bill. **Government programs** intended to increase college access and affordability have not achieved their purpose.

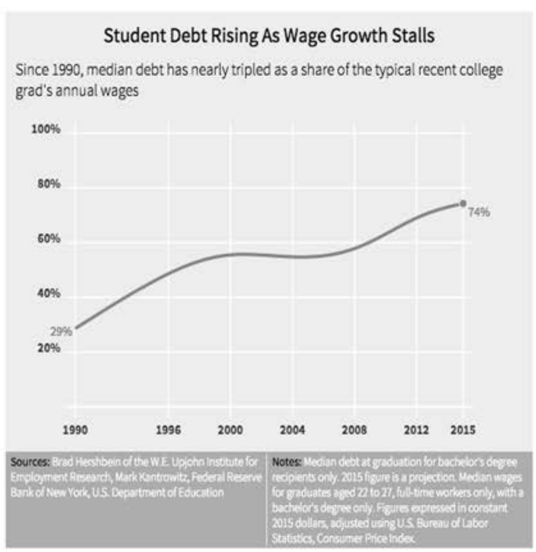
This hearing on college endowments and their relationship to the affordability issue is timely as students around the country are returning to campus, and we are in the middle of College Savings Month. To any new parents in the chamber, start saving now!

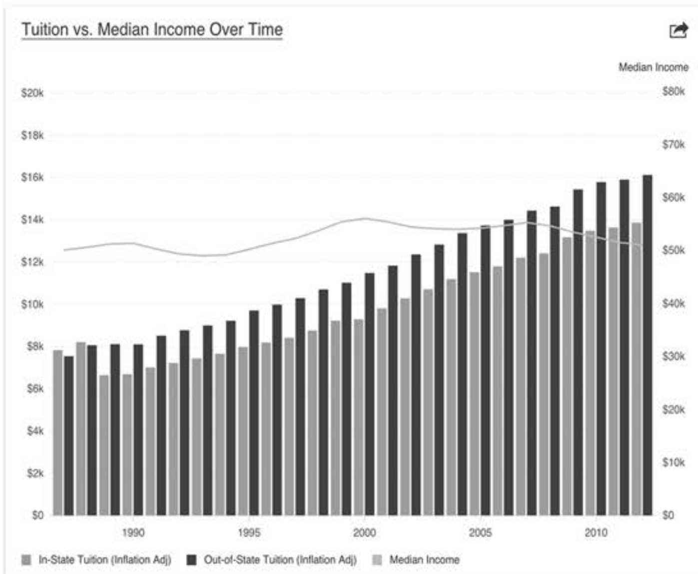
The cost of higher education has increased more rapidly than that of food, shelter, and medical care for the current generation of college students. Tuition at private four-year colleges has increased an average of 4.7% a year since 2000. This far outpaces the average inflation of 2.2% over this time period.

When compared to wage growth, the differential is even more startling. I want to put in perspective just how much college tuition has increased using the entering class at Washington College as the example. At the time these freshmen were born, median college tuition at private non-profit colleges was $15,380. Now the median is $32,405.

Median family income was $40,816 when our entering freshmen were in diapers. If income kept pace with tuition, their parents would be making $85,998 today. Unfortunately, the 2016 comparable income is far short of that—only $53,657. The comparison is even more stark when looking at real wage growth for college graduates compared to the rise in student debt levels. Drawing from research by the New York Fed and data published by the US Department of Education, one recently published analysis in the Huffington Post showed that real wages for the typical college graduate have risen only by 1.6% over the past 25 years, while average student debt for four-year graduates has grown by a whopping 163.8%.







Tuition increases have outpaced the price increases for cars, houses, rent, movie tickets, food, clothing, you name it. More and more families perceive that they are being priced out of the college market, and many actually are. Yet a college degree is more indispensable for today's job market than ever before. College graduates outnumber high-school educated workers in the workforce for the first time in our history. And since the recovery, only jobs for college graduates have rebounded. Jobs for high school graduates that were eliminated in the recession have not come back.[1]

Some argue that America and the world are on the verge of a third industrial revolution in which a college degree will be essential. While as many as 47 percent of jobs in our country will be taken over by computers and robots within the next 20 years, just as many new types of jobs will be created.[2] In health care, diagnostics tasks are already being computerized. Computerization is entering the realms of legal and financial services. Advances in user interfaces enable computers to respond directly to a range of human requests. Think Siri.

But while technological advances are contributing to declining costs in robotics, robots are still unable to match the depth and breadth of human perception. To succeed in this marketplace, the new workforce must have the ability to think critically, and analyze complicated problems, and communicate clearly—all skills we teach at liberal arts colleges like Washington College.

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[1] "America's Divided Recovery: College Haves & Have Nots," Anthony P. Carnevale, Tamara Jayasundera, Artem Gulish, Georgetown Center on Education and the Workforce, 2016.

[2] "The Future of Employment: How Susceptible Are Jobs to Computerization?" Carl Benedikt Frey, Michael A. Osborne, University of Oxford, September 2013.
http://www.eng.ox.ac.uk/about/news/new-study-shows-nearly-half-of-us-jobs-at-risk-of-computerisation
(http://www.nigeltodman.com/The_Future_of_Employment.pdf)

Generalist work requiring a high degree of social intelligence—jobs in business, management, finance, education, healthcare, and the arts—are at a very low risk of being computerized. (*Frey*, p. 40). We don't want to limit choice, which is the strength of our higher education system; some of the free tuition proposals would do just that.

In order to grow the middle class, our economy needs many more students earning college degrees so that they can perform the jobs our economy requires. Yet its cost is moving beyond the reach of too many families. Study after study has shown that the cost of college—affordability—is the top deciding factor for almost every student.

In research conducted for Washington College by Hanover Research in 2016, 81 percent of the respondents surveyed said that cost is either very or extremely important. Affordability is far and away more important than campus atmosphere, location, quality of athletic programs, or student-faculty ratios.

Sallie Mae just released a national study, "How America Pays for College," that came to the same conclusion.[3]

The Committee invited me to appear today to talk about what we are doing at Washington College about affordability. There is no single solution to the problem; we've adopted a multi-pronged approach.

First, we are increasing philanthropy. Earlier this summer, we celebrated a record year for fundraising, bringing in almost $23 million and increasing alumni participation in annual giving by four percentage points. That's a pretty big deal, and we hope to repeat that jump this year. With our encouragement, most of our major gifts last year were for scholarships, and all of our smaller gifts to The Washington Fund are used for financial aid. If a gift is unrestricted, it is used for scholarships. I like to say that giving to endow a scholarship is more enduring than giving to bricks and mortar. We need both, but we always need more scholarships. Buildings require maintenance and upkeep, which is expensive and can also drive up costs and consume endowment spending.

I believe scholarship giving is the most prestigious form of college philanthropy.

Every year, Washington College provides more than $25 million in grants and scholarships, with 90 percent of students on the receiving end. Financial aid is especially vital for first-generation college students, whose families often require the most assistance in paying for their education.

This is why we started **George's Brigade.**

This initiative—a full scholarship program for high-performing, first-generation students whose families would otherwise not have the resources to pay for a private liberal arts education—is intended to improve college accessibility and tackles the problems of high student loan debt and college affordability at the same time. Members of George's Brigade will have their full financial needs met, including room and board. If students wish to borrow for incidental expenses, the program requires that they limit their loans to $2,500 per year. This will allow them to receive an excellent education and to launch their careers without the burden of large amounts of debt. I think this loan restriction is important because one of the worst outcomes for any student is to borrow a lot of money and not complete a degree.

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[3] "How America Pays for College," www.salliemae.com/plan-for-college/how-america-pays-for-college/ 2016.

An exceptional feature of George's Brigade is that it allows students to apply and be admitted in small groups from the same community or school so that they have companions to share their transition to college life. The initiative includes special programming, events, mentoring, and career counseling for the enrolled students. The first group of George's Brigade—16 students from across the country (including seven from Baltimore)—are part of the Class of 2020.

Since its inception in late 2015, George's Brigade has received support from a variety of sources. Of the $4 million committed so far, $2.85 million is endowed. With each successive year, as we raise additional scholarship dollars, George's Brigade will continue to grow in strength and numbers.

Dam the Debt, another program in our arsenal, reduces the debt of all Washington College graduating seniors holding federally subsidized loans in their final semester. The program is unlike any other debt reduction initiative in that students will not have to pay taxes on the money they are given. As a result of Dam the Debt, 119 qualifying seniors from 15 states received enough money to erase the federally subsidized loans they had taken out in Spring 2016. Amounts varied depending upon the students' loans, but the average reduction was $2,630. It is a back-ended scholarship, a reward for graduating. Students told me this was vastly more useful than the typical graduation gift of a paperweight or a pen.

Savers' Scholarship. Just two weeks ago, Washington College launched the Savers' Scholarship to make college more affordable. This pilot program will reward families who have saved money for their children's education. Our scholarship will match the amount that families contribute from a 529 college savings plan or an Educational Savings Account, up to $2,500 per year, to pay for their student's tuition. I know that 529 plans are typically used by upper middle-income families, and I think that is ok. I know from personal experience that when a family has to save for two or three kids going to college, it really takes financial planning. This program is a way to reward that foresight and behavior.

Tuition Freeze. Finally, we are freezing tuition—a rare trend among liberal arts colleges. We are among a very small fraction of colleges that do so. And we are currently evaluating our budget and projections to limit the need for future tuition increases. This year, we are welcoming one of the largest, most academically gifted, and most diverse entering classes ever. With a four percent increase in the percentage of freshmen students returning for their sophomore year, I have to think that the freeze and our other affordability programs have something to do with those successes.

Income Share Agreements

I am inspired by the President of Purdue, Mitch Daniels, who has been a leader in college affordability for public universities. He has compiled an amazing track record, having frozen tuition for five consecutive years. He has also launched a new program of income share agreements, or ISAs. I believe ISAs hold great promise as a pathway to a truly debt-free education and hope that Congress would seriously consider adoption of an ISA program as an alternative, if not a replacement, for the current debt-driven federal system.

If we want access to college financing to be broadly accessible, we should move away from a debt financing model to an equity financing model as represented by ISAs. Currently, federal loans are granted with no underwriting. As a result, many students and their families receive loans they have no realistic hope of repaying. We are not doing these young people any favors by giving them loans that they cannot afford, that they cannot discharge in bankruptcy, and that could be a drag on their financial well-being even into retirement. It would be much better to move to an equity financing model, where students are required to pay a small percentage of their income up to a certain cap, over longer period of time, instead of a frequently unaffordable fixed payment loan amortized over the current ten-year period.

Under the equity financing model, graduates are always guaranteed an affordable payment and are given the benefit of time to progress in their career with accompanying higher income levels to make it easier to give taxpayers a reasonable return on their investment. Graduates entering higher-paying professions will pay back more and pay it back faster than graduates entering lower-paid professions—both with the certainty as to when their obligations will end. To its credit, the Administration has launched various income-based repayment options for students who cannot afford the standard ten-year repayment term on a federal loan, however, these are still debt obligations and frequently require a significant portion of disposable income as a monthly repayment. The options are confusing and complex, and some involve negative amortization features. The nonpayment rates are high even when students are given these alternatives.

I would encourage Congress to at least consider authorizing a pilot program allowing students to opt out of their loans and into ISAs. I would also encourage building ISA payments into the payroll tax system so that they are automatically made each pay period. This would greatly reduce the high rate of defaults and non-payments we currently see in the federal loan programs. An ISA would reduce stress for students, eliminate servicing issues, and eliminate a substantial risk to the taxpayers.

As exemplified by Purdue, colleges are also moving forward with ISAs on their own, and I support legislation to clarify legal, tax, and consumer protection issues surrounding this novel, affordable approach to college financing.

Increased scholarship funding, promoting ISAs, and limiting tuition increases—these are policies and strategies to keep a college education within the reach of the typical American family, even without the federal government picking up the tab.

Such initiatives are particularly important to the future of small liberal arts colleges like ours. It is essential to preserve the liberal-arts tradition, which differentiates the American higher education system from others and is one of the reasons why our system is the envy of the world. This is not an inexpensive way to educate young people—we offer small class sizes, low faculty-to-student ratios, experiential learning, and international exchange opportunities — but these are essential to the education of students who can think critically, communicate, and adapt to the ever-changing world economy that we live in. I am proud of the leadership role we have played in defending the liberal-arts tradition, while at the same time pioneering ways to make it more affordable.

IF I HAD A BILLION-DOLLAR ENDOWMENT

The Committee is right to be looking at college endowments. I can think of no better purpose for endowment income than scholarships. I would love to have a billion-dollar endowment. A 5% draw of $50 million would cover 80% of our budget and we would slash tuition accordingly. Regrettably, our endowment is considerably smaller—just $200,319,335. We adhere to a 5%

spend rate. In fact, over the last few years, our Board has authorized a 5.5% rate. Nearly 60% of our endowment draw is dedicated to scholarships, and I hope that percentage will increase even more during my presidency.

The rest of the endowment spending is used for endowed chairs, program funds, building maintenance, prizes and awards, non-scholarship athletics, lectures, and library books.

Congressman Tom Reed has been working on a bill, the Reducing Excessive Debt and Unfair Costs of Education Act, which proposes to require colleges with endowments larger than $1 billion to allocate 10 to 25% of their income for financial aid, or lose their tax-exempt status. I think this is certainly more than reasonable, though it would be better for colleges to adopt such a policy on their own. It saddens me that Congress would need to require colleges to do something so obviously in the best interests of their students.

The Education Trust recently released *A Glimpse inside the Coffers*, a report that examines endowment contributions and spending at some of the nation's wealthiest nonprofit, private institutions. Among the findings is that more than half of them are not spending endowment income at the 5% rate that is required of private foundations. If the 35 educational institutions with endowments larger than $500 million that are spending below 5% increased their spending rates to 5%, they would generate an extra $418 million that could be used for scholarships. I can't think of a better use of the money, and I can't think of a better time to do it than now.

Thank you for inviting me to the Committee. I would be happy to answer questions.

Mr. ROSKAM. Mr. Amburgey.

STATEMENT OF JEFF AMBURGEY, VICE PRESIDENT FOR FINANCE, BEREA COLLEGE, BEREA, KENTUCKY

Mr. AMBURGEY. Thank you very much for giving Berea College the opportunity to participate in the hearing this morning.

Berea College is an independent college located in Kentucky that does not collect tuition from any of its students. And its financial model, accordingly, is completely unlike that of other the schools. The college serves approximately 1,600 students of limited financial means, and it replaces tuition revenue with a combination of investment income, annual fundraising, and other sources.

One of the main aspects of Berea College is the board of trustees in 1920 developed a policy for all unrestricted bequests to become a part of the endowment. Berea continues to follow that today.

Berea's tuition model would not be possible without this endowment, overseen by its trustees. About 45 percent of Berea's endowment is actually board designated or quasi-endowment that Berea conceives as its "Tuition Replacement Fund" thanks to the bequest policy.

More importantly, about 75 percent of Berea's unrestricted educational and general operating budget is funded by the spendable return, the income from the endowment.

Founded in 1855, the college admitted female and male, Black and White students, making it the first non-segregated, coeducational college in the south. Because the college chose to focus on interracial education in the Appalachian region, it soon became apparent that its funding would have to be different from other schools as the students served could not afford to pay tuition.

In 1892, the college stopped charging tuition and required each student to work for the college. Berea College emphasized learning, labor, and service as the foundation for educating the whole person. This is still Berea's policy.

Berea provides from its endowment and other sources a Tuition Promise Scholarship for every admitted student each year, meaning that no student ever pays tuition. In addition to academic requirements for admission, there are also financial eligibility requirements for admission since the college seeks to serve academically promising students who cannot afford the cost of higher education.

The average Berea student comes from a family income of $27,600 for a family of four. Nearly 70 percent of the annual endowment spendable return is used to fund these Tuition Promise Scholarships and other direct financial aid to the students. Students attending the college receive on average scholarships and grant aid adding up to more than 92 percent of the $34,000 of the annual cost of attendance.

The college's heavy endowment dependence requires it to take special measures to protect its ability to carry out the educational mission. During the 1990s, when the equity markets were driving up gains in college and universities endowments, Berea made decisions about endowment spending that will have long-lasting impacts on the quality and the future viability of its institutional mission. Berea restricted the growth in its operating budget intentionally in order to create two reserve funds to help fund the physical plant needs of the school and to help the college operate through tough financial times.

Such a time came in 2008–2010, when Berea's endowment declined significantly. Berea was able to continue funding its programs by reducing its operating budget. In other words, we reduced our internally paid tuition, and further, by moving reserve endowment income into its operating budget.

Like other institutions, one goal of Berea's endowment is to maintain intergenerational equity to students of multiple generations so they will have the likelihood of receiving the same inflation-adjusted educational experience. In other words, Berea's spending rate must not exceed its real after-inflation rate of compound return over long periods of time.

There are always embedded tensions in this goal. The college must provide reasonable increases in its annual operating budget for competitive salaries and other expenses, fund the bricks and mortar needs of the campus, while maintaining the purchasing power of the endowment. Over the last 23 years, Berea has experienced real growth, net growth, above the rate of inflation in its endowment. However, over the last 16-year period, the endowment has not kept up with the growth in the Consumer Price Index.

In conclusion, the college's endowment is the financial lifeblood that funds the extraordinary mission of access and affordability that Berea College provides to the lowest economic tier of students attending postsecondary education in the United States.

Berea's uncommon educational mission has become more and more reliant upon endowment income while it strengthened its overall physical plant in times of endowment plenty and also has been able to provide the high-quality educational program in times of endowment income shortages.

Berea's administrative leadership hopes no actions will ever be taken to reduce the dollars available to fund Tuition Promise Scholarships for its students.

Thank you.

[The prepared statement of Mr. Amburgey follows:]

GOD HAS MADE OF ONE BLOOD ALL PEOPLES OF THE EARTH
BEREA COLLEGE

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BEREA COLLEGE WRITTEN STATEMENT
COMMITTEE ON WAYS AND MEANS HEARING
1100 LONGWORTH HOUSE OFFICE BUILDING
SEPTEMBER 13, 2016

Berea College is an independent college that does not collect tuition from any of its students, and its financial model, accordingly, is completely unlike that of other schools. The College serves approximately 1,600 students of limited financial means, and it replaces tuition revenue with a combination of investment income, annual fund-raising, and monies from other sources. Adhering to a policy adopted in the early 1920s by the Board of Trustees, the College has built a $1 billion-plus endowment by committing all unrestricted bequests and trust legacies to long-term investment. Berea's tuition-free model would not be possible without this endowment, careful stewardship, and sound investment practices that are actively overseen by its Board of Trustees. About 45 percent of Berea's endowment is actually board designated or quasi-endowment that Berea conceives as a "Tuition Replacement Fund" thanks to the bequest policy. More importantly, about 75 percent of Berea's unrestricted educational and general operating budget is funded by the spendable return (income) from the endowment.

The College's mission is more complex than that of many schools, and the only way to capture the guiding principles of its work is through its Great Commitments. First formulated in the 1960s and only occasionally rearticulated since then, a copy of the Great Commitments is attached at the end of this statement.

Founded in 1855 by the abolitionist Rev. John G. Fee, Berea College admitted female and male and black and white students in a fully integrated curriculum, making it the first non-segregated, coeducational college in the South and one of a handful of coeducational institutions of higher learning in the mid-nineteenth century. The College began as a one-room schoolhouse that also served as a church on Sundays. Fee named the new community and set of schools after the biblical Berea and preached a gospel of impartial love built upon the two Great Commandments, which are to love God and to love your neighbor as yourself.

Because Berea College and the Berea Schools (all sixteen years of schooling were available until 1968 when Berea became a college only) chose to focus on interracial education in the Appalachian region, it soon became apparent that the funding of these schools would have to be different from their counterparts, as the students served could not afford tuition. The Berea College Catalog of 1866 noted that Berea schools sought to serve the freed slaves and "poor white mountaineers" of the mid-South. In 1892, the College *stopped charging tuition* and required each student to work for the College. Berea College and schools emphasized learning, labor, and service as the foundation for educating the whole person. This is still Berea's policy today.

Berea provides from its endowment, augmented by private, state, and federal scholarship funds, *a Tuition Promise Scholarship for every admitted student each year,* meaning that no student ever pays tuition. In addition to academic requirements for admission, there are also financial eligibility requirements for admission, since the College seeks to serve academically promising students who cannot afford the high cost of private liberal arts education. The average Berea student comes from a family income of $27,609 for a family of four. Approximately 68 percent of the annual endowment spendable return is used to fund these Tuition Promise Scholarships and other direct financial aid to students. Students attending Berea College receive on average scholarships and grants from federal, state, and institutional funds adding up to more than 92 percent of their $34,380 annual cost for tuition, mandatory fees, housing, meals, books and supplies, and personal and transportation expenses. The balance is paid through a student's Expected Family Contribution (EFC), based on the Free Application for Federal Student Aid (FAFSA), summer work savings, Berea's required work program, and loans. Sixty percent of Berea's entering class in 2016 had an EFC of $0, and 30 percent of Berea's 2015 graduating class had no loan debt. The average for the graduates that did have loan debt was $7,100, substantially less than the $35,000 national average, although the mode was much lower. For students who choose to travel internationally (traveling is optional), the large amount of the few loans can skew the average amount, although it makes it possible for 40 percent of Berea students to have a study-abroad experience.

Following a longstanding mandate from the Board of Trustees, between 70 and 80 percent of incoming Berea students are admitted from Kentucky and Appalachian counties in other states, which together constitute Berea's Admissions Territory of 339 counties. For example, in Berea's incoming 2015 class, 77.8 percent came from this territory, 15 percent from all other states in the U.S., and 7.2 percent from 32 international countries (non-U.S. Citizens, non-permanent residents, and non-refugees having F-1 visa status). Sixty-one percent of the class was first-generation status (neither parent had completed a college degree), 11.3 percent were of Latino/Hispanic/Spanish origin, and 20.8 percent of students identified themselves as "black or African American" alone or in combination with another race. One hundred percent of international students had an EFC of $0, and 98 percent of domestic students received a Pell Grant. Of the 2014 entering class, an impressive 86.3 percent returned for a second year.

As one of eight federally recognized work colleges, Berea requires every student to work in one of more than 120 campus labor departments for at least ten hours a week and the average is nearly 15 hours a week.

Berea's highly acclaimed academic programs consist of both B.A. degrees in the liberal arts (i.e., humanities, social sciences, and natural sciences) and B.S. degrees in professional studies (i.e., nursing, agriculture, technology, and education).

Berea is unique among higher education institutions in the United States in not having tuition as a funding source and instead depending on (1) endowment income, (2) state and federal scholarships that students bring with them, and (3) annual funds it raises from donors. Berea is typical of most colleges or universities with large endowments in its increased reliance on endowment income. For example, in 1980, federal and state scholarship funds (e.g., Pell and Kentucky Tuition Grant) provided 20 percent of Berea's operating budget income. Today, with the loss of the real-dollar impact of Pell, that percentage is only 10 percent. In 1980, Berea's annual fund supported 25 percent of the operating budget, while today it provides only 10 percent of the dollars needed annually for its budget. And in 1980, Berea's endowment income provided 55 percent of the monies needed for the operating budget, and now *Berea relies on its endowment to fund 75 percent of its operating budget*. Therefore, one can see that Berea is heavily dependent on the endowment spendable return to fund its mission of providing a tuition-free collegiate education to needy students.

This heavy endowment dependence requires the College to take special measures to protect its ability to carry out its educational mission. During the 1990s when the stock markets were driving up the gains in college and university endowments, Berea made decisions about endowment spending that will have long-lasting impacts on the quality and future viability of its institutional mission. Berea restricted the growth in its operating budget in order to create two reserve funds to help fund physical plant needs and to help the College operate through tough financial times. Berea had over $140 million in deferred renovations of its campus facilities (academic, residential, and administrative), with no dollars set aside for these needed renovations. To address this issue, its administrative leadership set aside a stream of income from its unrestricted endowment to begin to fund renovations and to service both principal and interest on bonds from its newly created Capital and Plant Fund. Since 1994, it has renovated numerous major buildings and smaller spaces at a total expenditure of more than $190 million. It has borrowed to fund part of these improvements and coincidently had its Moody's debt rating enhanced from Aa to Aaa during that same time period. Likewise, it also created a Temporary Capital Emergency Reserve Fund (TCERF), the income of which the College could spend each year on one-time capital projects and still maintain a stream of endowment income to move over into the operating budget during difficult periods of the market. Such a time came in 2008-2010, when Berea's endowment lost approximately 25 percent of its value. Berea was still able to continue funding its programs by reducing the operating budget further and by moving TCERF money into its operating budget as needed. Had Berea been required to spend a certain percentage of the endowment annually, the College could not have addressed its distressed physical plant nor protected the institution against the recession of 2008-2009.

Like other institutions, one goal of Berea's endowment is to maintain intergenerational equity so students of multiple generations have the likelihood of receiving the same inflation-adjusted educational experience. In other words, Berea's spending rate must not exceed its real (after-inflation) rate of compound return over long periods of time. There are always embedded tensions in this goal. The College must provide reasonable increases in its annual operating budget for competitive salaries and other expenses and fund the brick-and-mortar needs of the campus while maintaining the purchasing power of the endowment.

Over the last 23 years, the College has received $350 million of endowment additions (mostly gifts through bequests), $403 million of cash income from endowment investments, $775 million in market value appreciation, and distributed $836 million from its endowment, per the Board-approved spending formula, to carry out its mission. Over the last 23 years, the average annual compound investment rate of return was 7.49 percent, the net annual compound growth in the endowment (investment return plus endowment additions less spending distribution) was 4.79 percent, and the annual compound growth in the Consumer Price Index (CPI) was 2.25 percent. During this time frame, which included much of the great investment returns of the 1990s, Berea experienced real growth (net growth above the rate of inflation) in its endowment.

However, if the time period is July 1, 2000, through June 30, 2016 (16 years that includes the events of 9/11 and the Great Recession of 2008-2009), the numbers change significantly. The average annual compound investment rate of return was 4.09 percent, the net annual compound growth in the endowment (investment return plus endowment additions less spending distribution) was 1.25 percent, and the annual compound growth in the CPI was 2.12 percent. Thus, over the last 16-year period, the endowment did not experience a net growth rate greater than the CPI growth rate.

Another consideration in the management of college and university endowments is the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Most states, if not all, have adopted some form of UPMIFA. Effective July 15, 2010, the Commonwealth of Kentucky adopted legislation incorporating the provisions outlined in UPMIFA. The statutory guidelines relate to prudent management, investment, and expenditure of donor-restricted endowments held by charitable organizations. The legislation specifies factors for fiduciaries to consider prior to making a decision to appropriate from or accumulate into an organization's endowment funds. The College interprets its fiduciary responsibility for donor-restricted endowments under UPMIFA, unless there are donor-specific provisions to the contrary, as preserving intergenerational equity to the extent possible. As noted earlier, under this broad guideline, future endowment beneficiaries should essentially receive at least the same level of economic support that the current generation enjoys. Endowment assets are invested to provide growth of the endowment through real investment return that exceeds spending over the long term. The overarching objective is to meet the College's goal of preserving and enhancing the real (inflation-adjusted) purchasing power of the endowment fund in perpetuity. Assets are invested to provide a stream of earnings to meet spending needs and attain long-term objectives without the assumption of undue risks.

The use of the spendable return from donor-restricted endowments or true endowment funds are normally established by the donor and accepted by the institution in an endowment fund agreement. Berea is fortunate that most of its true endowments are restricted to support the cost of education (known as tuition at other schools), or to provide direct financial aid to students to help pay room and board. In other cases, some endowments are more restrictive. For example, the annual spendable return from one of Berea's endowment funds supports a program on campus that provides a laptop computer to every student. Another endowment fund goes beyond the campus community itself by providing outreach support to other non-profit organizations in under-served rural Appalachia. This endowment fund helps the College carry out its eighth Great Commitment of serving Appalachia through education and other appropriate means.

One exercise that an institution should consider is a review of donor-restricted endowment funds, especially very old ones, to determine whether the fund is less restrictive than how it is currently being used. Berea has over 5,000 individual endowment funds; approximately 2,000 donor-restricted, and approximately 3,000 board-designated or quasi endowment funds. The Great Recession of 2008-2009 resulted in a significant decline in the annual endowment spendable return. Berea conducted a review of several old donor-restricted endowment fund agreements and correspondence to determine whether there was any flexibility in the use of the endowment spendable return. Some endowment funds had two or three options for the use of the spendable return. Through this review, leaders discovered several endowment funds that could be used to provide tuition scholarships to students instead of more restricted uses and still honor the donor restrictions.

In conclusion, the College's endowment is the financial lifeblood that funds the extraordinary mission of access and affordability that Berea College provides to the lowest economic tier of students attending postsecondary education in the United States. Berea's uncommon educational mission has become more and more reliant upon endowment income while it has strengthened the overall physical plant in times of endowment income plenty and protected its capacity to continue providing high-quality educational programs in times of endowment income shortages. Berea's administrative leadership hopes no actions will ever be taken to reduce the dollars available to fund Tuition Promise Scholarships for its students. As the College mission directs, all of us at Berea are eager to find ways to make higher education in America affordable to all students.

Sincerely yours,

Jeff Amburgey
Vice President for Finance

Enclosures

BEREA COLLEGE
The Great Commitments

Berea College, founded by ardent abolitionists and radical reformers, continues today as an educational institution still firmly rooted in its historic purpose "to promote the cause of Christ." Adherence to the College's scriptural foundation, "God has made of one blood all peoples of the earth," shapes the College's culture and programs so that students and staff alike can work toward both personal goals and a vision of a world shaped by Christian values, such as the power of love over hate, human dignity and equality, and peace with justice. This environment frees persons to be active learners, workers, and servers as members of the academic community and as citizens of the world. The Berea experience nurtures intellectual, physical, aesthetic, emotional, and spiritual potentials and with those the power to make meaningful commitments and translate them into action.

To achieve this purpose, Berea College commits itself

- To provide an educational opportunity primarily for students from Appalachia, black and white, who have great promise and limited economic resources.
- To provide an education of high quality with a liberal arts foundation and outlook.
- To stimulate understanding of the Christian faith and its many expressions and to emphasize the Christian ethic and the motive of service to others.
- To provide for all students through the labor program experiences for learning and serving in the community, and to demonstrate that labor, mental and manual, has dignity as well as utility.
- To assert the kinship of all people and to provide interracial education with a particular emphasis on understanding and equality among blacks and whites.
- To create a democratic community dedicated to education and equality for women and men.
- To maintain a residential campus and to encourage in all members of the community a way of life characterized by plain living, pride in labor well done, zest for learning, high personal standards, and concern for the welfare of others.
- To serve the Appalachian region primarily through education but also by other appropriate services.

Originally adopted by the Board of Trustees in 1969;
this revised statement adopted by the Board of Trustees of Berea College, Berea, Kentucky
April 24, 1993

Berea College, founded in 1855, is located in Berea, Kentucky.
The Great Commitments were formed around the goals of Berea.
We acknowledge their challenge and we accept these commitments as our responsibility for generations of Bereans.

Mr. ROSKAM. Dr. Schneider.

STATEMENT OF MARK SCHNEIDER, VICE PRESIDENT AND INSTITUTE FELLOW, AMERICAN INSTITUTES FOR RESEARCH (FORMERLY COMMISSIONER OF THE NATIONAL CENTER FOR EDUCATION STATISTICS)

Mr. SCHNEIDER. Chairman Roskam, Ranking Member Lewis, Members of the Committee, thank you for inviting me to testify today. My name is Mark Schneider. I am a vice president at the American Institutes for Research here in Washington, D.C. Along with my colleague Jorge Klor de Alva, who is the president of the Nexus Research and Policy Center, we have been exploring the size of public subsidies to students who attend the best-endowed private universities in the Nation.

We know America's universities are held up worldwide as models of excellence and are heavily represented in any list of the world's best universities. However, this high esteem rests on a highly unequal distribution of wealth, dominated by some first-class public flagship universities and a group of private schools, not-for-profit universities, with very large endowments.

Topping the list of the latter are schools with endowments over $20 billion, Harvard, Yale, Princeton, and Stanford, and this elite group are joined by another 50 universities with endowments over $1 billion.

Because gifts to endowments are tax free and endowment earnings are not taxed, public subsidies to the students who attend these universities are hidden but can be quite large. And the way this works, of course, is that the size of the public subsidy increases with the size of the endowment, so that students at Harvard and Princeton and Yale are subsidized to a far greater extent than students at public universities and colleges.

Congress has granted tax-exempt status to these endowments to serve the public interest, but because so much wealth is now concentrated in so few hands, there are questions about the extent to which the public interest is, in fact, being served by the distribution of these endowments.

In our research, Jorge Klor de Alva and I have shown the extent to which taxpayers are subsidizing rich students in rich universities, and we suggest ways in our testimony in which the incentives governing the use of tax-free university endowments can be made more compatible with the public interest.

In our research, we show that private universities are not necessarily private. In fact, they are getting huge amounts of public money. So we looked in-depth at the extent of public subsidies through the Tax Code to a set of 10 rich private universities compared to the appropriation for flagship universities, regional campuses, and community colleges near those schools. Students in the rich private schools received twice as much public money as students attending public flagship universities, four times as much as students attending public regional campuses, and around five times as much as students attending community college.

We also showed that these high endowment concentrations are inversely related to the concentration of Pell students. So in the richest universities in the Nation only about 15 percent of students have Pell Grants compared to 45 percent of students with Pell Grants in public institutions, 4-year institutions, and almost 60 percent of students in community colleges.

In short, the unequal distribution of endowment wealth and the unequal enrollment of low-income Pell Grant recipients leads to a pattern where more affluent students attending richer universities get far more money from the taxpayer than students attending public institutions.

So what should be done about this?

One, we should shine a bright light on this pattern, which is part of what this hearing is about. We should know the size of public money and public investments in these institutions. We suggest ways in which the 990 could be changed and clarified in order to make that kind of information more available.

Second, encourage local governments to understand the tax exemptions and how much money property tax exemptions are contributing to this maldistribution of wealth. Granted, local taxation is not an issue for the Federal Government, but the lack of information is something that the Federal Government should be concerned about, and we suggest that the committee ask the NCES, National Center for Education Statistics, to do a study on the tax wealth and the PILOTs.

Third, and certainly the most controversial, is that we believe that the endowments should be taxed. In our proposal in our testimony, we describe a system of taxation that would apply only to the very richest universities using a low tax rate to which private foundations are already subject, and we discuss a means by which this money could be transferred to community colleges to help support the students that this Nation needs.

Thank you very much.

[The prepared statement of Mr. Schneider follows:]

Testimony of

Mark Schneider, Ph.D.

Before the

Subcommittee on Oversight

Committee on Ways and Means

U.S. House of Representatives

September 13, 2016

Introduction

Chairman Roskam, Members of the Subcommittee, thank you for inviting me to testify today. My name is Mark Schneider. I am a Vice President at the American Institutes for Research here in Washington DC. Along with Jorge Klor de Alva, President of the Nexus Research and Policy Center, I have been exploring the size of public subsidies to students who attend the best endowed universities in the nation.[1]

America's universities are held up worldwide as models of excellence and are heavily represented in any list of the world's best. However, this high esteem rests on a highly unequal distribution of wealth, dominated by some first-tier public flagships and a group of private not-for-profit universities. Topping the list of the latter are schools with endowments over $10 billion: Harvard ($36 billion), Yale ($26 billion), Princeton ($23 billion), Stanford ($22 billion), and MIT ($13 billion)—joined by another 50 or so with endowments over $1 billion.

Because gifts to these endowments are tax deductible to the donors and the earnings these endowments generate are tax free, the public subsidizes these universities. These subsidies increase with the wealth of the university so students at Harvard or Yale are subsidized to a far greater degree than students at public colleges and universities.

Congress has granted endowments tax-exempt status to promote the public welfare. But because so much wealth has accumulated in so few institutions, questions arise about the degree to which the inequality in taxpayer subsidies serves a public purpose. It is important to note just how large the inequality in endowment wealth is: Of the approximately 1,600 not-for-profit private universities that report endowment data to the federal government, only 102 have endowments over $500 million and only 56 (less than 4%) have endowments more than $1 billion. The concentration of wealth is even greater at the top: only seven private institutions have endowments topping $10 billion. But these seven alone hold well over 40% of the endowment wealth of America's super rich universities.

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[1] See for example *Rich Schools, Poor Students: Tapping Large University Endowments to Improve Student Outcomes* (2015, April) available at http://www.air.org/resource/rich-schools-poor-students-tapping-large-university-endowments-improve-student-outcomes or http://nexusresearch.org/wp-content/uploads/2015/11/Rich-Schools-Poor-Students-Revised-November-2015.pdf and *Why Should Rich Universities Get Huge Property Tax Exemptions,* available at https://www.washingtonpost.com/news/grade-point/wp/2016/07/08/why-should-rich-universities-get-huge-property-tax-exemptions/

This highly unequal distribution of endowments has led to arguments that many universities have far more money than they need and that they are not managing their endowments in alignment with the public interest.[2] One factor contributing to this "endowment hoarding" is that university presidents are rewarded for large endowments. Empirically, we found that 2013 compensation levels for a set of almost 400 presidents[3] increased with the size of the endowment but declined with increases in Pell enrollment and was unrelated to six year graduation rates. In short, university boards of trustees, which set presidential compensation levels, are rewarding endowment hoarding far more than they are rewarding presidents who are more attuned to student success or the public interest in seeing them succeed.

These data suggest that a bright light needs to be shined on the size and use of endowments. Below we show the extent to which taxpayers are subsidizing students in rich universities and suggest ways in which the incentives governing the use of tax-free university endowments can be made more compatible with the public interest.

The Hidden Public Cost of "Private" Not-for-Profit Colleges

Since endowments are not taxed, students at well-endowed private schools enjoy public subsidies that are far greater than those for students at the public two- and four-year schools responsible for educating most working- and middle-class Americans. While these subsidies are all too often hidden from public view, they are nonetheless very real and very expensive.[4]

Table 1 shows that the per-student value of subsidies that flow through tax exemptions can far surpass the level of direct government appropriations to public colleges and universities.[5] The table is based on: (1) the average difference between 2012 and 2013, 2013 and 2014, and 2014 and 2015 endowment data,[6] used as a proxy for investment gains,[7] (2) the average effective

[2] See for example http://www.nber.org/papers/w15861.pdf?new_window=1
[3] The compensation data come from the Chronicle of Higher Education's most recent report on presidential compensation. Available at http://chronicle.com/interactives/executive-compensation#id=table_private_2013
[4] These tax exemptions are "off budget"—but they translate into taxpayer subsidies that, from a public policy perspective, should be treated as the equivalent of direct appropriations.
[5] An appendix detailing the calculations is available upon request.
[6] NACUBO. (2014). *U.S. and Canadian institutions listed by Fiscal Year 2013 endowment market value and change in endowment market value from FY 2012 to FY 2013*. Retrieved from http://www.nacubo.org/Documents/EndowmentFiles/2013NCSEEndowmentMarket%20ValuesRevisedFeb142014.pdf
NACUBO. (2015). *U.S. and Canadian institutions listed by Fiscal Year (FY) 2014 endowment market value and change in endowment market value from FY2013 to FY2014*. Retrieved from

combined state and federal long-term capital gains rates for 2013,[8] and (3) the latest three academic years' (AY 2011-12, 2012–13, and 2013-14) enrollment and government appropriations figures.[9]

Table 1 shows the estimated average government subsidy—through direct appropriations and tax exemptions[10]—per full-time equivalent (FTE) student attending 10 not-for-profit universities with the highest endowments in 10 states. It also shows the corresponding government investment in students attending a public institution in each of the following categories: the state flagships, regional campuses, and community colleges located in the same state as the elite private campus.

Across these 10 rich private institutions, using a weighted average of enrollments, taxpayers spent nearly $26,000 per student per year, almost twice the average direct taxpayer subsidies to students attending public flagship campuses in the same state as the private institutions. Table 1 also shows that, on average, the level of per-student support given to the 10 regional campuses in our study is about half what is given to students attending flagships. And while nearly half of students beginning their postsecondary education attend community colleges,[11] taxpayers support these students at the lowest levels. Each receives only about one dollar for every five dollars that taxpayers send per student to the elite private schools we studied.

http://www.nacubo.org/Documents/EndowmentFiles/2014_Endowment_Market_Values_Revised.pdf; NACUBO. (2016). U.S. and Canadian institutions listed by Fiscal year (FY) 2015 endowment market value and change in endowment market value from FY2014 to FY2015. Retrieved from http://www.nacubo.org/documents/endowmentfiles/2015_NCSE_Endowment_Market_Values.pdf

[7] Because the IPEDS data on income (for schools that use Government Accounting Standards Board [GASB]) and investment return (for schools using Financial Accounting Standards Board [FASB]) do not distinguish between recognized and unrecognized gains from investments, we searched for the best proxy possible for realized gains. After substantial consultation, we settled on the delta between annual endowment results. This solution is not perfect, but other alternatives we explored—in the absence of the relevant data—were found to be too speculative for this study. *This is why one of our recommendations is for greater transparency in reporting of endowment returns.*

[8] See Table 1 in: Tax Foundation. (2013). *The high burden of state and federal capital gains taxes.* Retrieved from http://taxfoundation.org/article/high-burden-state-and-federal-capital-gains-taxes

[9] National Center for Education Statistics. (n.d.). *IPEDS Data Center*. Retrieved from http://nces.ed.gov/ipeds/datacenter/

[10] Note that property tax exemptions, discussed below, are not included in our sum of taxpayer subsidies.

[11] Community College Research Center. (n.d.). *Community college FAQs*. Retrieved from http://ccrc.tc.columbia.edu/Community-College-FAQs.html. The support per student is lowest at community colleges for several reasons, including lower tuitions and degree attainment rates, and the shorter length of many of their educational programs.

Table 1: Total Federal, State, and Local Appropriations and Tax Subsidies* per FTE Student, by Institution Type: Three-Year Average

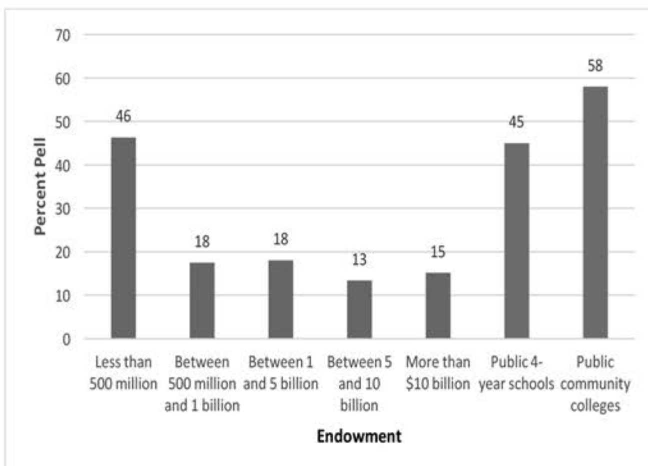
State	Private Not-for-Profit	Public Flagship	Public Regional	Community College
CA	Stanford	UC-Berkeley	CSU Fullerton	Fullerton
	$39,600	$8,800	$4,200	$7,500
CT	Yale	U of CT	Central CT	Tunxis
	$45,100	$23,600	$7,000	$6,500
IL	U of Chicago	U of IL Urbana	Western IL	Waubonsee
	$7,300	$7,100	$11,900	$8,100
IN	Notre Dame	IU Bloomington	IN State	Ivy Tech
	$17,100	$6,100	$7,100	$3,200
MA	Harvard	U MA Amherst	Bridgewater	Massasoit
	$26,200	$10,000	$5,000	$4,300
NC	Duke	UNC Chapel Hill	UNC Charlotte	Central Piedmont
	$11,500	$23,400	$8,600	$5,100
NJ	Princeton	Rutgers	Montclair	Essex County
	$72,100	$13,600	$4,600	$2,400
NY	Columbia	Stony Brook	CUNY Queens	Queensborough
	$9,600	$18,100	$5,400	$5,500
PA	U of Penn	Penn State	IN U of Penn	Westmoreland
	$15,900	$9,400	$3,700	$2,600
TX	Rice	UT Austin	TX State	Austin
	$13,700	$16,900	$4,400	$6,500
AVERAGE	**$25,800**	**$13,700**	**$6,200**	**$5,200**

* Does not include subsidies based on property tax exemptions.

The Size of Endowments and Pell Participation Rates

We noted above that presidential compensation levels were *negatively* related to the concentration of Pell students but positively related to endowment size. The data in Figure 1 shine more light on this relationship, showing that high endowment wealth is associated with low concentrations of low-income Federal Pell grant recipients. Only 13% of the students in universities with endowments between $5 and $10 billion are Pell recipients, and at even wealthier universities only 15% of students receive Pell grants. Meanwhile, only private colleges with endowments below $500 million have concentrations of Pell students comparable to the percentage of Pell recipients at public four-year colleges. And, as could be expected, community colleges, which receive the lowest levels of government or endowment support, serve the highest percentage of Pell students.

Figure 1: Median Percentage of Federal Pell Grant Participation at Private Colleges and Universities by Endowment Size and at Public Colleges and Universities



Source: IPEDS and 2015 NACUBO-Commonfund Study of Endowments.[12]

In sum, the unequal distribution of endowment wealth and the unequal enrollment of low-income Federal Pell grant recipients lead to a pattern: the rich schools get more than their less affluent

[12] National Center for Education Statistics. (n.d.). *IPEDS Data Center*. Retrieved from http://nces.ed.gov/ipeds/datacenter/; NACUBO. (2016). *U.S. and Canadian institutions listed by Fiscal Year (FY) 2015 endowment market value and change in endowment market value from FY2014 to FY2015*. Retrieved from http://www.nacubo.org/Documents/EndowmentFiles/2015_NCSE_Endowment_Market_Values.pdf .

private and public counterparts, who are educating the lion's share of America's working- and middle-class students.

What Should Be Done?

First, Make Hidden Subsidies Public.

The data presented here suggest a domain in need of a bright light. Many of our best-known private colleges are supported by taxpayers to an extent that is far more generous than the support received by the public colleges and universities that most students attend. State and local appropriations, allocated by elected politicians, pale beside the government subsidies to the richest universities made possible by hidden tax policies. Rather than leaving tax-based subsidies hidden, we need to bring to the surface data about the nature and size of these subsidies, the extent of their distribution, and the policies that promote their concentration in the wealthiest schools.

One mechanism for increasing transparency is through improving the IRS 990 Form that tax-exempt universities must file annually. The 2016 joint letter to the 56 richest universities identified many areas in which taxpayers should have more information. We suggest that Congress consider revising the 990 form so that this information is reported in a clear manner accessible to both the public and policymakers. Among the areas most in need of being addressed, in light of this hearing, is Schedule D, Part V, which concerns endowment funds. In particular, we suggest the following revisions:

- 1.c., realized earnings and losses must be clearly distinguished from endowment gains (i.e., total increase in the endowment minus contributions).
- 1.d., grants and scholarships should distinguish between cash awards and in-kind contributions (e.g., free tuition).
- 1.f., Administrative expenses should detail total cost for the management of the endowment (including fees paid to third parties).
- 2. Rather than percentages, exact amounts should be used for the endowment categories (quasi, permanent, and restricted).
- 2.a Board designated quasi-endowment funds should distinguish between those reserved for financial aid (scholarships and grants), those reserved for other educational purposes, and those reserved for other expenditures.
- 2.b. Permanent endowment funds and 2.c. temporarily restricted endowment funds should likewise make the same distinctions.

Second, Encourage Localities and States to Revisit the Property Tax Exemption

Private colleges are also exempt from paying property taxes, which adds, sometimes substantially, to the level of taxpayer subsidy they receive.[13] Since property taxes are set by local governments within the constraints of state laws, the federal government's role is inherently limited. However, because the *low level of information* about the size of property holdings of different campuses and how much these holdings cost taxpayers is something that could be used by local and state governments, the federal government can help by requesting this tax information in the 990 IRS form.

Reliable comparable numbers on the property holdings of tax-exempt colleges and universities would permit all to see exactly how much this tax break is costing local taxpayers. Given the paucity of data in this area, we believe the Congress should also ask the National Center for Education Statistics (NCES) to undertake a systematic study of these property holdings and the payments made in lieu of taxes (the so-called PILOTs).[14]

Third, Tax Large Endowments.

It is clear from the facts cited here that the current system of tax exemptions granted to large endowments no longer serves the public interest. We suggest that the Congress consider levying a moderate tax on these endowments. The questions are what should that tax look like and how should the revenues generated by the tax be best used to support the success of students and the public interest.

As presented in Table 2, we propose a taxation scheme in which qualifying endowments are very large (more than $500 million) and the proposed excise tax range is small and similar to the tax rate that private foundations are already subject to (0.5 percent to 2.0 percent).

To help minimize the impact of these assessments on the institutions subject to the tax, we recommend that, first, tax deductions for gifts given to these colleges remain in place. Second, to

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[13] There are other avenues for tax subsidies we have not measured, including exemption from state income and excise taxes, state and local sales tax, and tax-exempt bonds. Researchers at the Tellus Institute have proposed a broad framework for identifying and classifying all these expenditures, but we have chosen a more limited exercise across a wider range of schools. See: Tellus Institute. (2012). *Public investment in private higher education: Estimating the value of nonprofit college and university tax exemptions*. Retrieved from http://tellus.org/publications/files/college-tax-exemption.pdf See also Povich, E. S. (2015). *Should nonprofits have to pay taxes?* Retrieved from http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2015/3/05/should-nonprofits-have-to-pay-taxes

[14] Note, Schneider served as Commissioner of Education Statistics from 2005-2008.

assure the proposed tax does not inadvertently disrupt the amount affected schools set aside for financial aid and to encourage even higher allocations in aid to low- and middle-income students, we suggest the proposed tax be offset annually by the amount the school appropriates for financial aid to its Pell-eligible students.

Table 2: Proposed Annual Excise Tax Rates, Number of Colleges Affected and Expected Tax Revenue Based on 2015 Endowment Size

Size of Endowment	Number of Private Colleges Affected	Tax Rate	Total Endowment (in Millions)	Expected Tax Revenue (in Millions)
>$3 Billion	21	2.0%	$222,468	$4,449
>$2+ Billion	7	1.5%	$15,528	$233
>$1 Billion	28	1.0%	$39,714	$397
>$0.5 Billion	46	0.5%	$33,172	$166
TOTAL	102	1.01%	$310,882	$5,245

Source: 2015 NACUBO-Commonfund Study of Endowments[15]

This excise tax should not only encourage the taxed institutions to allocate a larger share of their endowments to financial aid for their low-income students, but also provide billions of dollars annually for the improvement of the education of hundreds of public institutions serving millions of low-income and middle-class students.

To do so, we recommend that the revenue raised from the excise tax be used solely for the benefit of students attending community colleges—institutions that are seriously under-resourced yet responsible for training much of the nation's workforce. Our proposal thus resembles the bill Senators Chris Coons (D-Del) and Johnny Isakson (R-Georgia) plan to introduce this fall, one holding four-year colleges more accountable for graduating students, especially those from low-income families. The bill, according to *Politico*,[16] would take some federal money away from

[15] NACUBO. (2016). *U.S. and Canadian institutions listed by Fiscal Year (FY) 2015 endowment market value and change in endowment market value from FY2014 to FY2015.* Retrieved from http://www.nacubo.org/Documents/EndowmentFiles/2015_NCSE_Endowment_Market_Values.pdf

[16] Stratford, M. (2016, July 26) *Sanders, Clinton eye unity over debt-free college.* Retrieved from http://www.politico.com/tipsheets/morning-education/2016/07/sanders-clinton-eye-unity-over-debt-free-college-215526#ixzz4H7pusVhH.

"wealthy and high performing colleges" that do not "serve a minimum number of qualified low-income students" and target it to "under-resourced colleges that are great on access but are struggling to succeed with completion." Do note that this proposed bill differs from proposals that would target additional revenues solely to students *within* the same school.[17]

We believe that this tax can be implemented in a revenue-neutral manner that incentivizes corporations to strengthen their support of local community colleges. To accomplish this, we propose that you consider a new charitable tax credit that builds on the tax legislation that created several types of tax credit bonds under the Internal Revenue Code.

The proposed taxing arrangement is revenue neutral because the revenue from the excise tax would match the amount offset by the tax credit gained by participating individuals or corporations. In effect, a taxpayer giving, say, $1 million to a community college could get an extra percentage of credit against taxes owed. The total amount of extra tax credit allowed by the program would offset the amount of revenue raised by the excise tax on large endowments. In turn, the value of the tax credits would match the annual flow of money to be made available to community colleges for qualified purposes. A competitive grant process could be used to assure that selected community colleges applied the funds to support practices proven effective in promoting student success.

As was the case with previous qualified tax credit bonds administered by the Treasury Department and used to support various educational and energy initiatives, these charitable tax credits could provide an attractive opportunity for corporations or others seeking to reduce their tax burden in a socially responsible manner.

Just as Treasury issued tax credit bonds to support only activities that met criteria set by rules, regulations or legislation, this tax credit would not be available to all. A panel of experts could be established to judge the applications and make awards based on the application's conformance to the established criteria.

[17] The Education Trust's recent proposal that wealthy schools be required to spend 5% of their endowment annually in order to increase financial aid for their students would benefit, by their calculations, fewer than 2,500 students across all the schools with endowments above $500 million. Our proposal could affect hundreds of thousands of low-income students (on numbers of students and percentages of low-income enrollees at community colleges see http://ccrc.tc.columbia.edu/Community-College-FAQs.html).

In effect, the proposed tax credits can build on these past procedures to support the implementation of practices proven to benefit community college students. The following outlines possible implementation steps:

- First, Treasury would estimate the annual yield of the excise tax on endowments over $500 million.
- Second, Treasury would fix the amount to be offset through the tax credits to equal that yield.
- Third, the U.S. Department of Education would establish a panel of experts to determine the qualifying criteria and evaluate the proposals from community colleges. The Education Department would then publicize a request for proposals from community colleges. The call would specify that only activities with evidence that they are associated with student success—measured by indicators such as increased student progression, retention, completion, or job placement—would qualify for financial support.
- Fourth, interested community colleges would help identify taxpayers interested in the tax credits. This effort would promote links between colleges and corporations that are critical to resolving the current gaps between what is taught and the workplace skills and competencies industries need.

Periodic evaluation of the effectiveness of the program would assure that it would be continually improved for continuous success.

The problems faced by higher education, such as low completion rates, cannot be ignored, and fixing them is expensive. In response to these challenges, and with the hope bipartisan support will make some version of it a reality, we hope you consider this excise tax—a tax whose time has come.

Mr. ROSKAM. Thank you.
Dr. BAUM.

STATEMENT OF SANDY BAUM, SENIOR FELLOW, INCOME AND BENEFITS POLICY CENTER, URBAN INSTITUTE

Ms. BAUM. Thank you, Chairman Roskam, Ranking Member Lewis, Members of the Committee. Thank you for the opportunity to testify today. My name is Sandy Baum. I am a higher education economist at the Urban Institute. I was formerly a professor of economics at Skidmore College in Saratoga Springs, New York, and I coauthored the College Board's annual reports "Trends in College Pricing and Trends in Student Aid." The views that I will express in this testimony are my own and not those of any organization with which I am affiliated, its trustees, or its funders.

We have heard already a lot of comments about endowments. I want to reiterate how highly concentrated endowment assets are. Five private nonprofit research universities hold one-third, approximately, of the endowment assets in the private sector institutions and about a quarter of all of the endowment assets in public and private institutions combined.

In other words, when we talk about endowments, there are few institutions that have a lot of resources and a fair amount of opportunity to do a lot, constructively, with those resources, but the vast majority of higher education institutions, including private nonprofit institutions, do not have those resources.

The median private institution has about $33,000 in endowment wealth per student, which could add, meaningfully, but only about $2,000 a year to their budgets, and at public colleges, of course, it is much less.

There are a few things to think about when comparing the endowments of institutions. One is that looking at total endowment can be misleading. You have to really look at endowment per student. So Harvard has almost two times as much endowment as Princeton, but Princeton has a much smaller student body and, therefore, has the highest endowment per student. So that is a really important distinction.

Also, endowments are not just there for undergraduate students. These are universities that educate graduate students, that have a research function and other public service functions. They operate hospitals. So thinking about the endowment in terms of the number of undergraduate students can be misleading.

And it is very important these endowments are there, both to subsidize the education of existing students and to provide long-term stability for the future. And, therefore, all institutions have spending rules limiting how much of their endowments they spend so that they preserve the value of those endowments.

A big part of the concern about endowments has to do with what is happening to college prices. We have already noted that college prices are going up rapidly. They have been going up faster than the rate of inflation for a long time.

But it is very important to note that in public institutions, where most of our students, particularly undergraduate students are educated, an important driving force that we have already heard about is that State appropriations per student have fallen dramatically in inflation-adjusted terms over the past decade, and it is not that public institutions are rapidly increasing their expenditures, it is that more of those expenditures are being met by tuition revenues rather than by State appropriations.

Also, it is terrifically important not just to look at the sticker price that institutions charge, but to look at the net price that they charge. And we talk frequently about the net price that students pay with the help of institutional grant aid as well as Federal and State grant aid, but also just institutional revenues are much less than you would think if you just look at the sticker price.

So public research universities now give institutional grants to more than half of their students, private research universities to over 70 percent of their students. Private colleges discount about half of their tuition and fees back to students. So you hear the sticker price, it is not the amount that the institution is actually charging students.

And many institutions, when they lowered their sticker prices actually also decreased their student aid, and therefore students, particularly low-income students, may not be paying less. So we have to be careful about focusing on what is happening to sticker prices in terms of thinking about how to make college affordable for students.

Institutions and the Federal Government give about the same amount in grant aid each year. A lot of the Federal Government's aid, by the way, is now through aid to veterans in the Post-9/11 GI Bill. It is certainly not just Pell Grants.

So those have different impacts on sticker prices. We can discuss at greater length the research on whether or not Federal grant aid really explains much about rising prices. I wouldn't say zero, but I certainly wouldn't say that is the most significant factor.

I commend the committee for investigating factors contributing to increases in college prices, their impact on students and potential students, and looking for solutions. The system is complicated. It is diverse. Solutions are not that simple.

We need to think about private colleges relative to other organizations that are tax exempt in this society, which also do various things that may or may not always be in the public interest. We need to not focus on the small number of institutions that are so visible, but on how to provide a quality education to the students who need it most in this Nation.

Thank you.

[The prepared statement of Ms. Baum follows:]

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COLLEGE ENDOWMENTS, COLLEGE PRICES, AND FINANCIAL AID

Statement of

Dr. Sandy Baum*
Senior Fellow, Urban Institute

before the

Committee on Ways and Means Committee, Subcommittee on Oversight
United States House of Representatives

HEARING ON TAX-EXEMPT COLLEGE AND UNIVERSITY ENDOWMENTS

September 13, 2016

*The views expressed are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

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Chairman Roskam, Ranking Member Lewis, and members of the Committee, thank you for the opportunity to offer this testimony about college and university endowments. I appreciate your attention to the issues o college access and affordability.

I am a higher education economist at the Urban Institute in Washington, DC, and a former professor of economics at Skidmore College in Saratoga Springs, New York. I am also the coauthor of the College Board's annual reports *Trends in College Pricing* and *Trends in Student Aid*. The views expressed in this testimony are my own, not those of any organization with which I am affiliated, its trustees, or its funders.

I will begin by discussing some facts about the endowment assets held by colleges and universities in the United States. I will then discuss some of the evidence about college tuition prices, the factors driving them upward, and the impact on students.

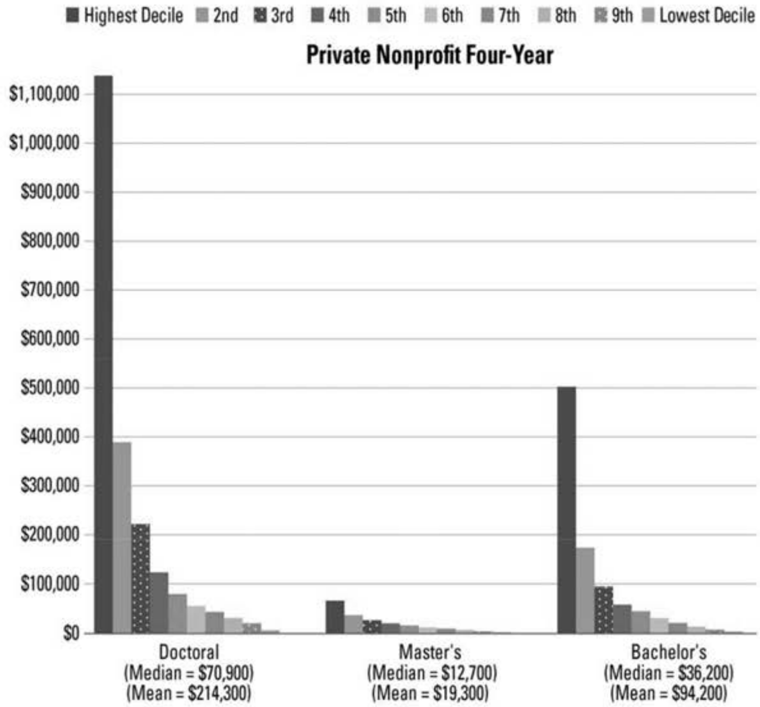
Endowments

A few colleges and universities in the United States have very large endowments that can contribute sizable amounts to their operating budgets. But this is not the case for the vast majority of postsecondary institutions in this country. Five private nonprofit research universities hold about one-third of all the endowment assets of the more than 1,600 institutions in that sector—and about one-quarter of the assets held by public and private institutions combined. In other words, a very small number of institutions have the asset levels that can make a real difference in the resources available to educate students.

Figure 1 below, from the College Board's report, *Trends in College Pricing 2015*, shows the distribution of endowment assets across private nonprofit colleges and universities. The doctoral universities in the top decile have more than $1 million in endowment assets per student. But those in the next decile have less than half that amount. The vast majority of colleges and universities in the sector have much lower endowments. The median institution in the sector has about $33,000 per student—an endowment that can generate less than $2,000 per student per year to add to the budget. In the public sector, the median endowment per student is about $8,000. Only a handful of public universities have endowments that can make a measurable difference in their spending patterns.

Appendix table 1 shows the data behind figure 1, as well as similar information for public colleges and universities.

Figure 1: Endowment Assets per Full-Time-Equivalent (FTE) Student at Private Nonprofit Four-Year Institutions by Decile, 2012–13

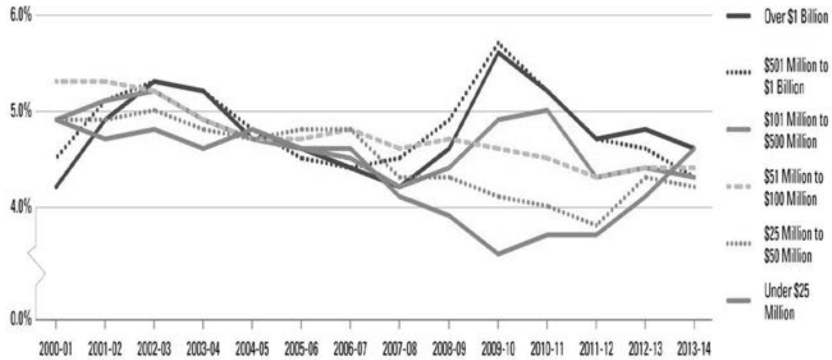


Source: Jennifer Ma et al., *Trends in College Pricing 2015* (Washington, DC: The College Board, 2016), figure 20.

Most institutions with significant endowments have rules that allow them to spend between 4 and 5 percent of the value of their endowments each year. That calculation is generally based on an average value over several years, since endowments fluctuate quite a bit along with financial markets. By law, endowment assets must be preserved, so only earnings beyond inflation are available. Many funds in the endowment are restricted and can be used only for the purposes prescribed by donors. Endowments serve a dual purpose: supplementing revenues from tuition and other sources to provide subsidies to current students and providing a sustainable financial model for the future.

During the Great Recession, when endowment values fell dramatically, the institutions with the largest endowments raised their endowment draw rates. In other words, they prevented spending from the endowment from falling as much as the value of their endowments fell. As figure 2 shows, the spending rates of institutions with large and small endowments diverged for a few years, but they have converged again as endowments have regained a significant portion of their pre-recession values.

Figure 2: Average Reported Spending Rates for College and University Endowments by Endowment Size, 2000–01 to 2013–14

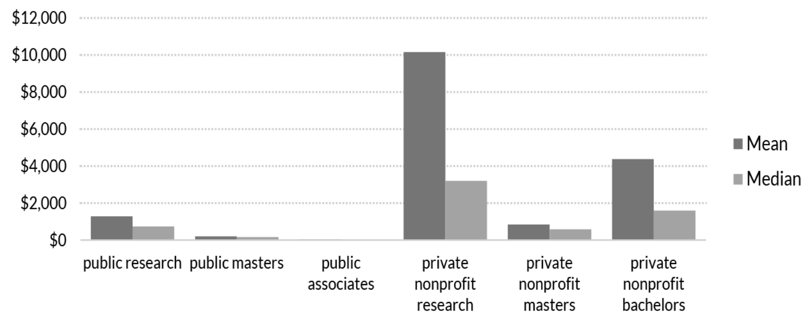


Source: Jennifer Ma et al., *Trends in College Pricing 2015* (Washington, DC: The College Board, 2015), figure 21B.

Another way of seeing the skewed distribution of endowments is to compare the incomes available to different institutions from their endowments. Aside from the difference between private nonprofit research universities and other types of institutions revealed in figure 3, the difference between the mean and the median is important. Looking at what we usually call averages—the mean, or the total endowment income divided by the number of students overall—suggests that the private nonprofit universities have an average of about $10,000 per student in annual income from the endowment to supplement other revenues. But the median is about $3,000. In other words, half of private nonprofit research universities have less than $3,000 per student each year to help them meet their goals.

The key takeaway from looking at the distribution of endowments is that a few institutions have a lot of options, but very few students will be affected by changes in endowment spending. The top 10 research universities have endowment incomes averaging about $50,000 per year per student, including both graduate and undergraduate students. But if we take out Harvard, Yale, Princeton, Stanford, and MIT, the next five average about half that much. And endowments diminish very quickly as we move down the list. The top 10 research universities enroll about 111,000 students—less than 1 percent of the 15 million full-time-equivalent postsecondary students in the nation

Figure 3: Average Available Income from Endowments, 2014



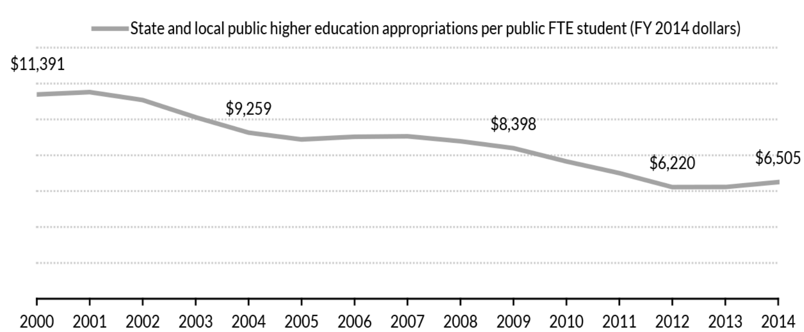
Source: The Urban Institute, data from U.S. Department of Education, Integrate Postsecondary Education Data System.

Why Is Tuition Rising So Rapidly?

No one is happy about how fast tuition and fees are rising at colleges around the country. But there is a lot of misunderstanding that can interfere with our ability to address the issue. First, it is critical to distinguish between public and private colleges. Public colleges depend on state and local governments for a portion of their funding. There has been a long-term downward trend in per student funding from that source. The $6,505 per student in fiscal year 2014 was almost 30 percent lower than the $9,529 (in 2014 dollars) 10 years earlier (figure 4). Some of the reduction arises from declining state dollars for higher education during the recession, but much of it is the result of rapidly rising enrollments.

Circumstances differ quite dramatically across states, but the national averages point to a very real problem with a major impact on public college tuition levels. The issue is much less one of rising institutional expenditures and much more one of the percentage of those expenditures covered by taxpayers in general as opposed to students and families.

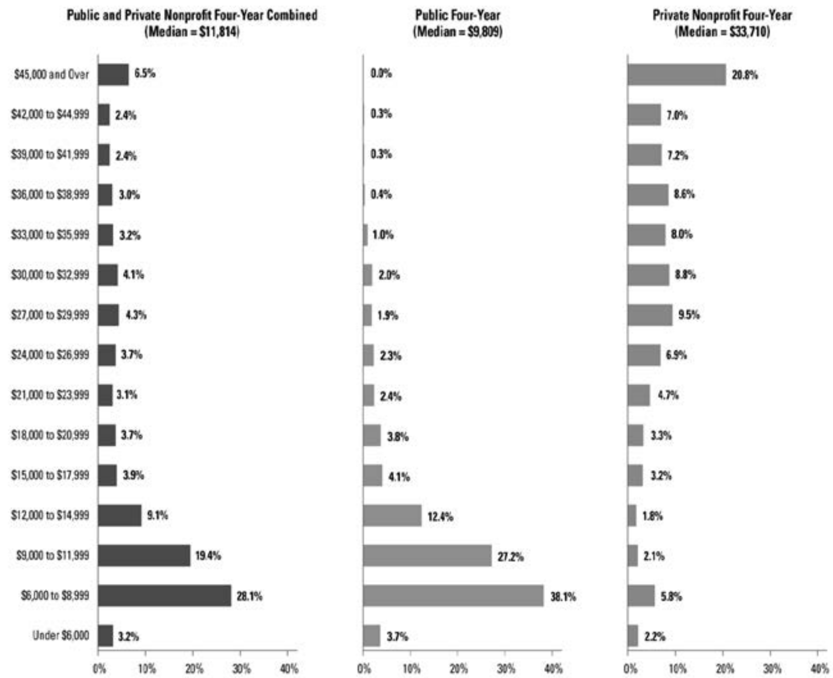
Figure 4: State and Local Appropriations for Public Higher Education in 2014 Dollars



Source: The Urban Institute, calculations based on data from State Higher Education Executive Officers.

As large as the variation in prices at public colleges is, the variation at private nonprofit colleges is much greater. According to the College Board, 65 percent of full-time students at public four-year colleges in 2015–16 faced sticker prices between $6,000 and $12,000 per year (figure 5). But about 20 percent of those in private nonprofit college faced sticker prices of $21,000 or lower while, at the other end of the spectrum, about 20 percent attended colleges charging $45,000 or more. Notably, despite public impressions to the contrary, only about 7 percent of full-time four-year college students attended institutions with sticker prices this high.

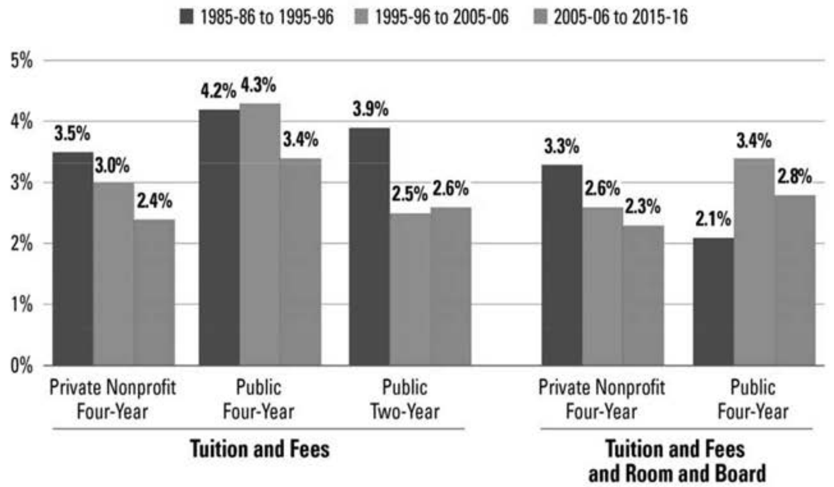
Figure 5: Distribution of Full-Time Undergraduates at Four-Year Institutions by Published Tuition and Fees, 2015–16



Source: Jennifer Ma et al., *Trends in College Pricing 2015* (Washington, DC: The College Board, 2015), figure 3.

Rising college prices are not a new phenomenon. In fact, prices rose less rapidly over the decade from 2005–06 to 2015–16 than in previous decades (figure 6). This does not mean the price increases are not a problem. It does mean it is reasonable to look beyond recent patterns to understand them.

Figure 6: Average Annual Percentage Increase in Inflation-Adjusted Published Prices by Decade, 1985–86 to 2015–16



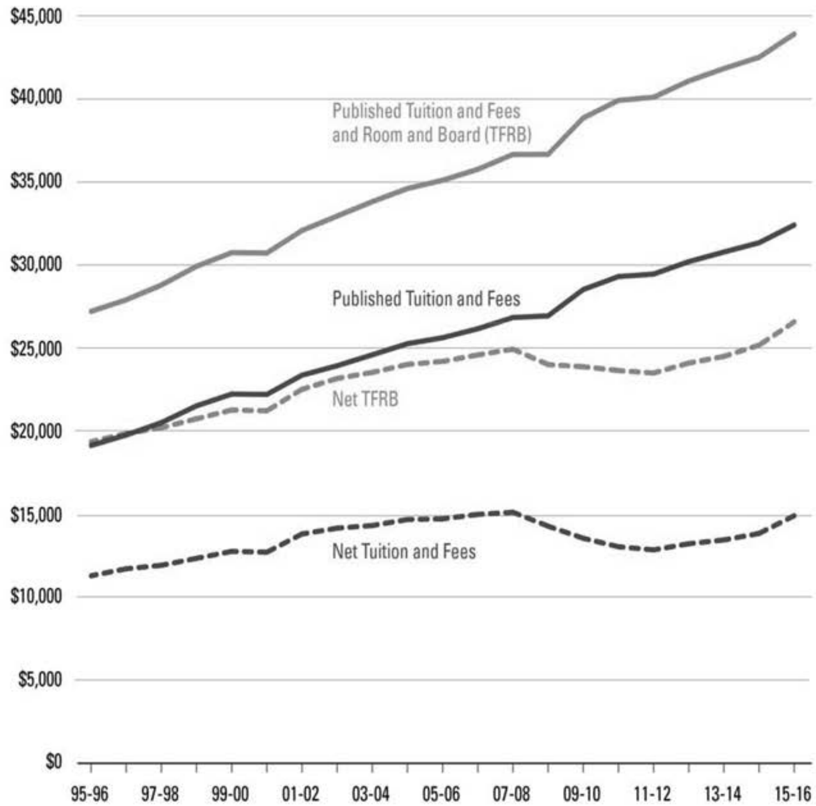
Source: Jennifer Ma et al., *Trends in College Pricing 2015* (Washington, DC: The College Board, 2015), figure 5.

Even more important to understanding the impact of rising tuition on students is clarifying the difference between sticker prices and the net prices students pay after taking financial aid into consideration. The revenues institutions take in from tuition are much lower than multiplying the number of students by the published prices might suggest. Both public and private nonprofit four-year institutions discount their prices quite a bit for many students. Between 2003–04 and 2013–14, the share of first-time full-time students at public research universities receiving institutional grant aid increased from 36 percent to 52 percent. The increase at private research universities was from 64 percent to 71 percent. These private institutions awarded more than $16,000 per student in discounts in 2013–14—lowering the average net tuition price they were actually charging to $16,000 less than the published price.[1]

These institutional discounting practices make for a very complicated pricing scheme that is difficult for students, families, policymakers, and almost everyone else to understand. It might be simpler to charge everyone the same price and publicize that price. And some private colleges do give discounts to every student. But the current pricing model allows institutions to charge different prices to different students. Although some of the aid is based on factors other than financial need, lower-income students pay much lower average net prices than more affluent students. If all students were charged the same price, that price might be lower than the current sticker price, but it would make it more difficult than it already is for institutions to provide meaningful access to the students with the most limited financial means.

[1] Based on data from the Department of Education's Integrated Postsecondary Education Data System (IPEDS).

Figure 7: Average Published and Net Prices in 2015 Dollars, Full-Time Undergraduates, Private Nonprofit Four-Year Institutions, 1995–96 to 2015–16



Source: Jennifer Ma et al., *Trends in College Pricing 2015* (Washington, DC: The College Board, 2015), figure 13.

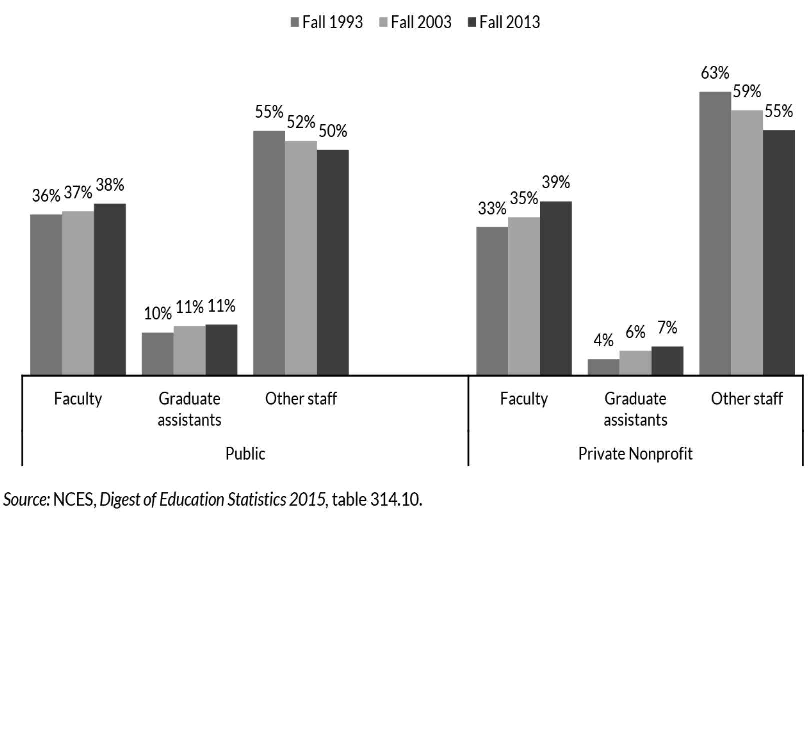
As figure 7 shows, the combination of institutional discounts, federal grant aid, and aid from states, private sources, and employers makes the path of the net prices students have paid over time to attend private nonprofit colleges and universities look quite different from the path of published prices. The increases in Pell grants in 2009–10 and 2010–11 dramatically affected the prices students paid and the educational opportunities available to them. The trend in net prices at private colleges has turned upward again, but in 2014–15, when the average published tuition and fees at private four-year nonprofit institutions was $32,400, the average price students paid to enroll in these institutions, after taking grant aid from all sources into consideration, was less than $15,000.

In 2014–15, undergraduate students received about $45 billion in federal grant aid (including veterans' benefits) and about $40 billion in institutional grant aid. There has been considerable discussion of the impact of federal grant aid on the prices colleges and universities charge. But the empirical evidence suggests that outside the for-profit sector, federal grant aid does not explain much about rising prices. Most important, the availability of that grant aid makes it possible for millions of students to go to college.

Some institutions have announced cuts in their published tuition prices, but cuts frequently involve simultaneous reductions in student aid, so students don't necessarily pay any less after the price reductions than before. If institutions increase their spending on financial aid, they are by definition redirecting funds from other sources. For some of the wealthier institutions, this might just mean slower endowment growth. But at most institutions it is more likely to mean some combination of higher tuition prices to increase revenues and reduced spending on maintenance of plant and equipment, faculty salaries, science labs, or curricular innovation. Most of us might be happy to hear that the trade-off is between financial aid and expanded sports facilities, fancier dormitories, or other apparent luxuries. But the reality is that when students choose their colleges, those who have options and are not limited to the local public institution tend to place disproportionate weight on amenities. So it can be counterproductive for institutions to stand on principle and focus only on investments that will have the largest impact on educational opportunities.

Some of the common wisdom about increased spending on campuses is misleading and might suggest easier fixes than actually exist. For example, it is certainly true that professional staff engaged in computer services, academic support, and related areas have replaced lower-paid support staff over time. But in terms of numbers of employees, the percentage who are not instructors has, as figure 8 shows, actually been declining.

Figure 8: Distribution of Full-Time-Equivalent Staff at Postsecondary Institutions, Fall 1993 to Fall 2013



Source: NCES, *Digest of Education Statistics 2015*, table 314.10.

Student Debt

Concerns over student debt are driving much of the conversation about college prices and institutional spending policies. Student debt is an important and misunderstood issue. My recent book, *Student Debt: Rhetoric and Realities of Higher Education Financing* from Palgrave Macmillan, provides detailed data on the issue, as well as analysis of both the real and perceived problems and of potential policy solutions.

In brief, in considering policies to address issues of college affordability, it is important to be aware of some of the less-known realities of student borrowing:

- Only about 10 percent of students who borrow for undergraduate education incur as much as $40,000 in debt. Forty-three percent of graduate borrowers accumulate debts this large.
- Almost half of outstanding student debt is held by households in the top quarter of the income distribution. This is not surprising since people who were in college or graduate school long enough to incur significant debt tend to have relatively high incomes.
- Student loan default rates are highest on small debts and lowest on large debts. Borrowers who did not complete degrees or certificates default at almost three times the rate of those who did complete credentials.
- Older students, those who enroll in for-profit colleges, and those who take longer to finish their programs are more likely than others to accumulate high levels of debt.

Conclusion

The Committee should be commended for its investigation into the factors contributing to increases in college prices, the impact on students, and potential solutions. The federal government certainly has responsibility for ensuring that financial barriers do not prevent individuals from investing in themselves, benefiting from the outstanding U.S. higher education system, and completing postsecondary credentials. But the system is very complicated and diverse. A small number of very visible institutions educating a tiny fraction of postsecondary students have more than ample resources. Most of these institutions do make considerable efforts to enroll and subsidize low- and moderate-income students. But they could always do more.

Unfortunately, the vast majority of colleges and universities are not so well resourced. There is always room for efficiency improvements, but sharp declines in state funding for public institutions and strained economic circumstances for most of the non-elite private nonprofits explain much of the pressure on tuitions and limit how well these colleges and universities can both reduce costs and provide high-quality educational experiences to a diverse student body.

Policies for increasing educational opportunity should focus on affordability, but they should also focus on ensuring that institutions have the necessary resources to provide educational experiences that will enrich students' lives.

Appendix Table 1: Endowment Assets per Full-Time-Equivalent Student at Four-Year Colleges and Universities, 2012-13

Private nonprofit four-year decile	Doctoral (median = $70,900) (mean = $214,300)	Master's (median = $12,700) (mean = $19,300)	Bachelor's (median = $36,200) (mean = $94,200)
Highest decile	$1,137,900	$65,600	$501,500
2nd	$388,000	$36,100	$172,500
3rd	$220,300	$25,800	$93,000
4th	$122,000	$19,500	$57,700
5th	$79,100	$15,100	$44,100
6th	$54,600	$11,400	$30,000
7th	$42,700	$8,400	$20,200
8th	$30,200	$6,100	$12,500
9th	$19,600	$3,200	$6,500
Lowest decile	$5,200	$1,300	$2,800
Public four-year decile	**Doctoral (median = $16,600) (mean = $28,000)**	**Master's (median = $3,300) (mean = $4,200)**	**Bachelor's (median = $1,600) (mean = $5,200)**
Highest decile	$112,100	$12,800	$27,500
2nd	$52,700	$6,400	$7,600
3rd	$35,500	$5,000	$4,600
4th	$25,000	$4,200	$2,700
5th	$18,900	$3,600	$1,800
6th	$14,100	$3,000	$1,500
7th	$9,500	$2,400	$1,100
8th	$7,000	$1,900	$800
9th	$4,400	$1,300	$500
Lowest decile	$2,700	$700	$100

Source: Jennifer Ma et al., *Trends in College Pricing 2015* (Washington, DC: The College Board, 2015).

Mr. ROSKAM. Thank you.

All five of you are very impressive with your background and your study and your personal experience. And my sense is that if we put a microphone in front of any one of you, you could go for about 2 hours giving us this incredible insight.

We will transition now in terms of the hearing and allow our members to make some inquiries. And I will recognize Mr. Meehan.

Mr. MEEHAN. Well, thank you, Mr. Chairman.

And thank you, panelists, not only for your presence here today, but your collective efforts at looking at this complex issue.

As a parent who is educating three children simultaneously in college today, but I know I speak for so many of my colleagues and friends and others, this problem is overwhelmingly more impactful than anybody appreciates. Whole generations of parents are just taking their entire requirements and turning them over to universities. This bubble has yet to hit. And children are borrowing at a rate that dramatically exceeds the ability for them, in many cases, to anticipate how they are going to pay it back. Parents are on the hook for that as well.

So I appreciate your efforts at looking at this challenge and how we come up with some answers.

One thing, Ms. Baum, you just testified, Mr. McCluskey, I thought you testified as well, just about the State issue. And you suggested that there were increases that are growing by virtue of a lack of State investment, the cutback.

Mr. McCluskey, you seem to indicate that for every 53 cents lost, they actually increased tuitions and generated $1 for every 53 cents they have lost. Can you explain that?

Mr. MCCLUSKEY. Sure. I think one of the differences is Dr. Baum was talking about a 10-year span. I was talking about a 25-year span. And I essentially smooth the rates on a per-pupil basis. And that is very important. There have been significant cuts on a per-pupil basis in State and local appropriations to public colleges.

In the aggregate, it is actually over the last 25 years, from the start to the end, it has gone up about $10 billion adjusted for inflation. So at the per-pupil level, it is certainly the case that it has gone down, but not in the aggregate.

And then what we have seen is, if you look at revenue per pupil that public institutions have brought in through tuition and fees, they have gone up faster than you have seen a decrease in appropriations.

Now, it is also important to note that varies greatly from State to State. So some States have seen bigger drops on a per-pupil basis in appropriations than they have seen increases in tuition and fee revenue. But if you average out the States, you get that 53-cent drop in appropriations and $1 increase in tuition and fees.

I think it is also important to note, there is some evidence that State legislators may not appropriate as much to their schools if they think student aid, and particularly Federal aid, will cover that.

Mr. MEEHAN. Thank you.

Ms. Bair, I was struck by an op-ed you wrote in The Washington Post talking about price discipline and actually paralleling the mortgage crisis to the education crisis. Could you explain to me what the essence of that was?

Ms. BAIR. Well, yes. I think it is not the exclusive driver, but I think the ability to freely borrow has made it easy for schools to raise tuition, because students are going to just keep borrowing more to pay for it. So your usual supply and demand is out of whack. You are increasing the price, but you are not necessarily reducing demand and getting that price discipline because of the easy availability for credit.

That is what feeds an asset bubble. That is the same dynamic we saw during the subprime crisis. It was very easy to get credit, virtually no underwriting on subprime mortgages. And it fed a housing bubble, because you greatly expanded the ability of borrowers to buy houses, multiple houses in that case.

Mr. MEEHAN. But we also had at that point in time an inability for many of those homeowners to pay back that borrowing, and the same dynamic is very much at play now in the educational field. Is it not?

Ms. BAIR. Well, that is right. I would say in terms of default rates, the problem is much worse—well, nonpayment rates. I think with all the various different repayment plans, it is very difficult to get good data about just how student loans are actual performing. But, yes, I think that the percentage of students in distress on their student loans is significantly higher than we saw during the subprime crisis and subprime borrowers, yes.

Mr. MEEHAN. Thank you.

Mr. Schneider, a closing question for you. I have put a lot of work into the idea of transparency in college expenditures and how they actually use the money that they obtain through tuitions and otherwise. I tried going through Form 990, just in colleges, and they are overwhelmingly complex documents. So that the average person trying to make decisions will not be able to, in my mind, read that.

What can we do to improve the 990 so that a consumer would have a better idea of how universities are not only generating money, because I think your point about the tax benefits associated with large endowments are different from small colleges, but also how they are spending it?

Mr. SCHNEIDER. So I believe that this is a fundamental problem, because the 990 is unbelievably complicated already. And we are talking about a very difficult—I worked in a university. The president of the university often complained about not even being able to understand exactly what was going on in her own university.

I think there are a couple of things. So the first thing, we have some proposals about getting better information onto the 990s so that, in fact, the flow of money into the universities and the calculation of the public subsidy can, in fact, be better.

I think, quite frankly, at that point we are going to have to do an education campaign using the media, using newspapers, using advocacy groups to help the people understand exactly what is going on.

Some of the numbers are quite simple, right? I mean, the size of the public subsidy for students at Princeton University is infinitely larger than what we are giving to students in community colleges. I think that is a simple message that needs to be broadcast.

Mr. MEEHAN. Thank you, Mr. Chairman. I yield back.

Mr. ROSKAM. Mr. Lewis.

Mr. LEWIS. Thank you very much, Mr. Chairman.

I spend a great deal of time when I am not here in the Congress traveling around America, speaking at colleges, universities, meeting a lot of wonderful, smart, gifted young people, college graduates. But they all complain about debt, paying back student loans. And two of you are college presidents. And I agree with Mr. Meehan that parents, grandparents are investing in their children, their grandchildren.

What can we do to keep people, when they leave college, leaving a university, they are saddled down with debt? I even hear some of my colleagues in the Congress that are still paying off their student loans. What can we do? The two college presidents maybe.

Ms. BAIR. So, Congressman, I do think, as I get into more detail in my written testimony, that we should get away from a debt model to what I call an equity model. They are generally called income share agreements. There is private sector interest in this. I am really talking more of a government program.

If we want to make financing broadly available to students up to some sensible level, I think there needs to be some sensible overall cap, you are, by definition, going to be making loans to people that won't necessarily repay, because there is no underwriting. In a way, you kind of have reverse underwriting now, because the eligibility is based on need, which makes sense from a policy perspective, but there is no connection between that and whether the student is going to be able to repay the loan.

So shift to an equity model, just put everybody into an income share based on a very, very small percentage of what they actually make when they graduate, paid off over a very long period of time, so that they can benefit over the years from increased earning potential as they advance in their career.

I think if you built it into the tax system, you would eliminate defaults. Just make it easy, put it in withholding, make it part of a payroll tax or what have you. You would make it easier for students. You would get rid of all these servicing problems. I mean, I am sorry, as a former bank regulator, I see some of the things going on with servicing of student loans, and it makes the hair stand up on the back of my neck.

So have an automatic payment system that is built into the tax system, make it a very small percentage of income, make it over a long period of time. I think that is really the way, if we want to make financing generally available to everyone, again, up to some commonsense cap, it is better to use that equity model as opposed to a debt model.

And that way, if they don't get a job, or if they make very low incomes, they don't have to pay anything. They are always guaranteed a very low payment. If they go work for a hedge fund or a tech company, make a lot, they are going to pay back more, they are going to pay it back faster. But everybody will have an affordable payment, everybody will have a protection against student loan distress, which is what we have now, which is rampant.

Ms. BAUM. Could I just add that I agree with much of those comments in terms of the importance of making payments depend on people's incomes and of having the collection be automatic. But calling debt something other than debt isn't going to change the fact that students owe money and they have to give a portion of their future incomes to repay debt.

So the question of whether the Federal Government should be doing this or the private market should be doing this, I think there would be severe disagreement about. I mean, it is most important to provide liquidity to those students to whom the private market would not be kind in terms of the terms on the loans, because they are the students who are most at risk.

So these solutions are important, but it is also very important to note that we have some very real student debt problems in this country, some students who are borrowing for programs and institutions that will not serve them well. But the typical student who goes to college and earns a bachelor's degree is not drowning in debt. They are borrowing money as part of an investment in their futures, and that investment pays off very well.

Mr. LEWIS. Mr. President, do you care to? I have visited your college, a great school, Berea.

Mr. AMBURGEY. Let me give you a little information about the debt load at Berea. Our initial financial aid package does not include any loans. So a student can go there and never have to take out a loan. However, if they choose to do so, they can international study abroad, they will borrow money for that.

So our average student that graduates that does have debt, many of them graduate with zero debt, is about $7,100 on average. So it is manageable.

I think it is very important for us in higher education to educate the student's on debt and the obligations that go with that when they do leave the institution. It is not a grant. If it is a loan, it needs to be paid back.

I would like to add also that 98 percent of Berea's students receive some form of Pell money. So the very needy students financially. Expected family contribution of our entering class, about 60 percent of our entering class this fall has an expected family contribution of zero. So if the expected contribution is zero, that means the family cannot pay any expected towards that.

If the expected family contribution is $1,000, and the family does not contribute, obviously the student, we cannot over-award, and they may need to borrow to finish it out.

So from Berea's perspective, our students graduate, luckily, because of the endowment, with very little debt to take with them into the workplace.

Mr. LEWIS. Thank you.

I yield back, Mr. Chairman.

Mr. ROSKAM. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman. And happy birthday, Mr. Chairman.

Mr. ROSKAM. Thank you, sir.

Mr. SMITH. Mr. Amburgey, very impressed with work colleges. We have a work college in southwest Missouri, College of the Ozarks, Point Lookout, and impressed with how many students graduate owing very little.

As maybe the only member of this panel that is still currently paying student loans, I understand. Okay, well, I have a partner over here with Mr. Reed. But it is extremely important that we get to the bottom of this.

You said that at Berea 98 percent of students use Pell Grants. Is that correct?

Mr. AMBURGEY. 98 percent of our domestic students receive some level of Pell. That is correct.

Mr. SMITH. Okay. What does the rest of the model at Berea consist of?

Mr. AMBURGEY. The financial model, like I said before, the unrestricted educational and general operating budget, 75 percent of that is funded by the endowment. Ten percent comes from the annual fund, annual fundraising. Another 10 percent comes from part of the Pell money we receive, Federal, State grant aid. A lot of that money goes directly to help pay the students for room and board, books and supplies. And then other income is the other component of that.

So when, for example, in 2008–2010 timeframe there was some serious discussion around the leadership table when our endowment was declining significantly in market value, but we did not have that tuition lever to pull, it was very difficult to get through those times, but we had mechanisms in place to help us get through that.

So, in summary, the endowment is the main component, annual fundraising is about 10 percent, and other resources make up the other.

Mr. SMITH. How large is the endowment at Berea?

Mr. AMBURGEY. A little over $1 billion. About $1.1 billion currently.

Mr. SMITH. Okay. And it has been since 1892 that you basically haven't been charging students. Is that correct?

Mr. AMBURGEY. That is correct.

Mr. SMITH. All right. Impressive.

President Bair, at your university, you mentioned that you recently have frozen tuition. What is the tuition per credit hour?

Ms. BAIR. So per credit hour, the sticker price—and as we have discussed before the discount, we discount about 50 percent of the sticker price—is around $44,000.

Mr. SMITH. We have a lot of the universities that say that when they have an endowment, some of these universities have an endowment of $1 billion, that they find it as a victory to only increase tuition by 5 percent a year.

Ms. BAIR. Yeah, I know.

Mr. SMITH. And you have frozen it. Can you tell you us how you have done that whenever so many others say it is impossible?

Ms. BAIR. Right. Well, we tightened our belts a bit. We had a surplus last year, and I think the board, in our discussion, sensibly asked: Well, why are we raising tuition if we are running a surplus? So we did freeze for 1 year. I don't know if we can freeze forever. I would like to. But we are certainly looking very hard about how we can hold the line on future tuition increases.

And it is, again, I think Washington College, again, I have only been there a year, I think they have done probably as good a job as any of trying to hold the line on tuition increases. But it has been typical throughout both the public and private sector, and I think everybody needs to just get smarter about how you spend your money, try to focus resources on the faculty side, hold the line on nonfaculty spending, administrative spending. The government can help a bit. Some of the regulatory costs have gone out significantly as well.

Mr. SMITH. Something that has always been implanted in my mind, whenever I was a State lawmaker in the State of Missouri, I had a constituent who was a former professor at one of our universities that came to my office with some research that he had provided over several years. And just by cutting the faculty salary as nonteaching faculty and above, deans, presidents, and above, by half, it would have meant that every student at that university would have a reduction by more than half of their tuition. And that has always stuck with me, and I just think that is something to look at.

Thank you, Mr. Chairman. I yield back.

Mr. ROSKAM. Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman.

I am pleased to note that Illinois has a wonderful work college, Blackburn College. I have worked closely with Blackburn, Berea, and other work colleges over the last decade on education and tax issues. So I am pleased that our subcommittee could hear about the wonderful things Berea and the work colleges are doing to help low-income students.

I feel very strongly that our laws should incentivize colleges and universities to do more for their low-income students. It gives me pause that many of the institutions with the largest endowments have small percentages of low-income students and also restrict access to AP credits that help students graduate more quickly.

Further, the revenue foregone from the top endowments exceeds the endowments at a vast number of other schools combined. For example, at the Historically Black Colleges and Universities, over 70 percent of students are low income, yet, only seven HBCUs have endowments that exceed $400 million, and many have endowments that are less than $2 million, like my alma mater, the University of Arkansas at Pine Bluff.

Yet, I am not certain that the Tax Code is the most direct route to incent institutional investments in low-income students. Endowments are a tremendously useful resource to institutions, and I believe strongly that institutions deserve their tax exemptions.

Endowments are complex by themselves and within the Tax Code. Trying to adjust the endowment benefit for educational institutions could unintentionally harm other endowments, such as those of private foundations.

For this hearing, my staff asked two wonderful private schools in my district, DePaul and Loyola Universities, about their endowments. These universities do amazing things for low-income students, amazing in both content and number. Yet, the vast majority of their endowments are restricted, with one school having 95 percent of its endowment restricted.

I think there are other elements of the Tax Code that can more directly help students. For example, my bill with Representative Black last session included two critical pieces to help low-income students afford college by better coordinating the AOTC and Pell Grants and by making Pell Grants nontaxable.

Due to poor coordination between the Pell Grants and the Tax Code, an estimated 1 million low-income college students do not receive any benefits from the AOTC.

Ms. Baum and Mr. Schneider, are there other elements of the Tax Code that could more directly help low-income students afford college?

Mr. SCHNEIDER. In our testimony, we outlined a very particular kind of system, that resembles other work that has been built into the Tax Code in terms of tax credit bonds, that could, in fact, generate about $5 billion a year that could be sequestered—not quite the right word—but it could be targeted at students in community colleges.

We always have to be cognizant of the fact that there could be unintended consequences that follow from tax laws, obviously, but the private foundations already pay between 0.5 and 2 percent of a tax on their endowment.

And what we are suggesting is that we could use that same kind of tax rate, that same kind of model, on extremely high concentrations of wealth and set up a system in which the money is used to support students in community colleges for practices that are proven effective in improving students' success. And this is, for us, a very direct way of supporting low-income students using the Tax Code.

Ms. BAUM. I support the idea of providing incentives to the Tax Code for community colleges, for low-income students, but I think your point about the tax credits and Pell grants is very important. The tax credits, even with the refundability of those tax credits, don't help many low-income students because the Pell grant is paying their tuition. But it is also very important to note that for low-income students, they need the money in their pockets to pay the bills, and getting a tax credit a year later doesn't actually serve the same purpose as Pell grants for low-income students.

Mr. RANGEL. Thank you very much. Mr. Chairman, I yield back.

Chairman ROSKAM. Mr. Reed.

Mr. REED. Thank you, Mr. Chairman. And thank you to our panelists. This is something I care deeply about. I have spent some time on here, and I have obviously got some attention on some proposals we put out there. And I come at this issue from somebody who cares, from a parent whose first child went to school this year, and we had to send her to not her first choice because of cost. Sixty-five thousand dollars was the annual tuition cost she was facing versus a school she ended up at at $23,000 a year. I come at this from a personal perspective, $110,000 worth of student loan debt when I completed my studies. I know firsthand the adverse consequences and life impacts that has in making choices available to somebody who wanted to pursue potentially other course of careers.

And I also come at it from across the district hearing time and time again from parents who are just saying this has to stop, especially for working parents who are over that threshold where that cliff kicks in, and they are told by the institution there really isn't anything here for you. We haven't set up our programs to benefit the working families, in my opinion.

So I am going to ask you, the panelists, can you define, I want to put a spotlight on some of the spending that is going on in this arena. Mr. Schneider, to your point about the 990s. We spent a lot of time combing through 990s, and they are very difficult IRS forms to get information from. But we have seen things like the University of Illinois has paid its fired coach Ron Zook $1.3 million. University of California paid its fired coach, Jeff Tedford, $1.8 million for a year's worth of non—for no service. Ralph Friedgen up at the University of Maryland, $2 million while he fished and golfed. Steve Spurrier, well-known football coach, said this is a phenomenon that is like hitting that lottery ticket for these individuals.

We have also seen things like this for, in the University of Missouri, for expenses in regards to infrastructure. The University of Missouri charges $41,000 for out-of-state residents per year. They have constructed an indoor beach club complete with palm trees, lazy river, water slide, and a grotto, modeled after the Playboy Mansion.

We have seen the stories about college coaches. We have also seen the stories about college presidents and administrators. Columbia University, compensation in 2013 for its president was $4.6 million. But when you dig deeper, the investment manager was paid $6 million for his services. The vice president of investment management was paid $5.4 million a year. Are those reasonable costs in a not-for-profit world to be incurred by the institution? Anyone want to defend those costs on this panel?

I didn't think so. So I think a spotlight is part of the reform that we need to put on here.

But I also want to target some of the positive things that are going on. Berea College has been able to be put in a position where its students aren't being charged tuition. And from your testimony, I think you said one thing that was interesting to me, unrestricted gifts was a big step, I think, in order to get to where you need to be. What makes you capable of utilizing your endowment to have a zero tuition cost environment for your students?

Mr. AMBURGEY. Excellent question. I think there is several factors that help there. The unrestricted bequests, and we started that in the 1920s, putting that into the endowment. It is a very disciplined approach. Believe me, in the 2008, 2010 timeframe, when we saw the really financial crunch on us, very tempting to say let's peel off 5 percent of that new money coming in and use it for the operating budget, but we stuck to our guns, so to speak, and had the discipline to stick to that. So that very rigorous—there have been exceptions, and it takes board approval to make exceptions to that policy—by putting that money in the endowment. That is one thing.

The other aspect of it is our great commitments. I think Berea, we have eight great commitments that are guiding principles. That is part of my written testimony that you have in front of you. One of those, No. 7, includes the language plain living. So we do not have high-paid coaches. As a matter of fact, we are struggling to pay some of the coaches, okay, but many of our sports are free to come to. We would like for you to be there if you can, is the approach.

So I think our core mission is staying true to that mission, and the people that work there, both staff and faculty, knowing that this is our guiding principles and it is our core. That is what we do. So all being committed to that, helps also.

Mr. REED. And in closing, I recognize endowments are a bridge to getting the college costs issues under control. I don't see it as a single magic bullet and a panacea for it. And any ideas you have—and my time is expired—that the panelists have for how we can get college costs containment policies put in place that universities have to adhere to, I am very interested in finding out what platform you would recommend for us to pursue on that front.

With that I yield back.

Chairman ROSKAM. Mr. Rice.

Mr. RICE. Thank you, Mr. Chairman, and thank you for this interesting hearing. I have certainly learned a lot today, although as a former Gamecock, I don't appreciate the reference to Steve Spurrier.

A couple things that just give me pause and make me wonder about this. Ms. Bair, in your testimony you have a reference to the average loan by student graduating, I think it is $32,000 roughly. Ms. Baum, in your testimony, I think you said that only 10 percent of students have loans over $40,000. Is that right?

Ms. BAUM. That is correct for——

Mr. RICE. There is a disconnect there somewhere. If the average loan is $32,000, and only 10 percent have over $40,000, I am just curious about where the disconnect is?

Ms. BAUM [continuing]. For students who borrowed for undergraduate education, that is correct. It is very rare to graduate with more than $40,000 in debt. Many people who go to graduate school accumulate much more debt than that. And you also need to look at all of the students who are going to college and going to a private, nonprofit four-year college, you are likely to accumulate more debt then if you go to a public college or to a two-year college.

Mr. RICE. Ms. Bair, you may not have looked at the statistic, but do you agree that only 10 percent of students graduate, undergraduate students, with more than $40,000 in debt?

Ms. BAIR. I take at face value what she said. I haven't seen her research. But I do think the distribution is troubling, and you are right; graduate schools can drive up that debt. But sometimes low-income students will borrow far more than they should. I think you also need to look at debt levels and in aggregate and as they have grown, which I mentioned in my testimony, and the percentage of students who are actually, I believe over 50 percent of students now are not in the standard 10-year amortized loan, which is the repayment, the basic repayment they default into.

So they have actually had to proactively go to the Department of Education and get some kind of relief to get into a different type of repayment plan. So I think that in and of itself suggests that students are struggling. I think you also need to put this in context of what their wages will be when they graduate. So a $30,000 loan, amortized over 10 years, you are probably looking at $350, $400 a month, which can be a pretty significant chunk of take-home pay.

Mr. RICE. Do you provide counseling to students on their career paths and the debt load?

Ms. BAIR. We do, and I would like to do more of that and——

Mr. RICE. Do you steer people toward an area where they may get a job?

Ms. BAIR [continuing]. Yes. We put a very high priority on job placement. Some of our students want to go to graduate school. We make sure that is the right choice for them and help them if that is what they want to do.

Mr. RICE. I am sorry, Ms. Bair. Ms. Baum, also in your testimony you said that the highest levels of debt have the lowest defaults and vice versa?

Ms. BAUM. Yes, that is correct. The highest levels of debt are generally people who went to graduate school, people who at least got a Bachelor's degree. The people defaulting on their student loans tend to be many people who did not complete what they began. They may have gone to college for a year. They may have

$5- to $10,000 in debt, and those people are much more likely to default. And if you are working at the minimum wage because you went to college for a few months, then paying back any amount of student debt can be a problem.

Mr. RICE. I am a numbers guy, and your statistics are just interesting to me. Do you know the national average default rate on student loans by any chance?

Ms. BAUM. It changes dramatically and it ranges—recently about 24 percent of the people who did not complete a credential defaulted, and about 9 percent of people who did complete a credential defaulted.

Mr. RICE. Well, I have three sons. I have a 31-year-old, a 29-year-old, and a 27-year-old, so I felt the pain, and I was glad when my youngest graduated. And we absolutely need to do something about it.

It appears to me the tuition costs have just spiraled completely out of control, and I have seen where these endowments pay for these really lavish things off the normal college budget. I love your idea, Mr. Schneider, about more disclosure from universities about where this money is going, but I would love to hear from the panel about any other ideas that we have that we can shine more light on this problem, because I think one thing is people don't know about it.

Yes, sir, Mr. Schneider.

Mr. SCHNEIDER. Debt by itself is not the issue. It is debt in relationship to the earnings. And so, I work with many States in which we help States and universities calculate at the program level what the debt level is and what expected earnings are.

Mr. RICE. You had suggested as one of your solutions that endowments should be taxed?

Mr. SCHNEIDER. Yes.

Mr. RICE. From zero up.

Mr. SCHNEIDER. Only large endowments.

Mr. RICE. Please explain.

Mr. SCHNEIDER. So what I am concerned about is how much money—Harvard has $36 billion in endowment, and it attracts huge donations; so there is a cumulative inequality here. I think someone else noted that it is only a very small number of campuses that have——

Mr. RICE. Sir, would you recommend that the amount that is tax free be capped at a per student basis or something like that?

Mr. SCHNEIDER [continuing]. I believe that large endowments themselves should be taxed at between a zero and a 2 percent rate, but it is what we do with that money that is also of concern.

Mr. RICE. But what about the Berea colleges of the world who are giving free tuition to their students?

Mr. SCHNEIDER. Yes. In our program, in our plan, we have deductions for support to students and financial aid so that schools are not penalized for doing exactly what Berea is doing, but if they are spending their money on lazy rivers, then, in fact, they should be taxed.

Mr. RICE. Thank you.

Chairman ROSKAM. Mr. Holding.

Mr. HOLDING. Thank you, Mr. Chairman. Mr. Chairman, I would like to add to the accolades that are being given to Berea. Although I did not attend Berea, I would give Berea credit in a large degree for my opportunity to sit here today because my favorite and most influential professor in law school went to Berea, and I think if I hadn't run across her in my law school career, I probably wouldn't be here. So thank you Berea.

I am concerned about the rising administrative spending at colleges and universities and the effect of increased government regulation as it ties into that administrative spending. So, Mr. Amburgey, how do you manage to pay for all the administrators necessary to run a college? I imagine Berea pays more attention to costs than other colleges, and how do you address the administrative overhead?

Mr. AMBURGEY. Excellent question. Go back to 2008 and 2009. We actually made a 15 percent reduction in our budget, so we actually had some reserves to go through those times, and we actually, if you want to call it a tuition cut, because since we are paying most of our tuition internally, we actually had to reduce our costs. We have no incentive whatsoever to increase tuition. To manage those costs, we are just a very good, prudent, very active board. We stay on top of cost increases. We do modeling, looking forward, and this investment return that seems a low investment return environment today, we do realize that our budget is going to be restricted somewhat, but we have to live within our means. If we are going to trace true to our model and carry out our mission, we will make it happen.

Berea's model, having said that is very, very fragile. It is a financial model that is based on a lot of external forces, mostly the capitalism of the United States and the world. So we are impacted by things that are beyond our control, but we have put in place safeguards, so to speak, to help us get through those times.

So we manage our costs knowing that we are the ones, the school of endowment is going to have to carry the biggest load, and can it afford to do that.

Mr. HOLDING. So the Department of Education has said that administrative positions at colleges and universities grew 60 percent between 1993 and 2009, so I am assuming that Berea does not reflect that average?

Mr. AMBURGEY. I do not think we are near close to that.

Mr. HOLDING. President Bair, could you address how administrative costs are affecting Washington College, and have you seen a similar increase in the number of administrative positions during the period of time that the Department of Education referenced?

Ms. BAIR. Well, I have only been there a year, so I am sorry I can't give you a very good historical perspective. But I do think we see it certainly in the compliance area, as well as in the financial aid area. The Wall Street Journal op-ed that was referenced earlier also made an issue about the complexity of FAFSA. To the Obama administration's credit, they have tried to simplify it, but it is still over 100 questions. Especially for low-income students, it is extremely challenging. It really requires interpersonal sitting down, helping them. It just seems to me it could be dramatically simplified.

So I think financially in particular it is more complex than it needs to be, and that would be a potential area for administrative savings.

Mr. HOLDING. Mr. McCluskey, could you speak to the effect of government regulation on the rise in tuition?

Mr. MCCLUSKEY. Well, I think it is difficult actually to pinpoint the amount of regulation in particular as we learned the last few years. There is regulation that goes with running a college. There is a lot of regulations that colleges talked about that go with running research, and so it hasn't been my observation that regulation is what is driving the cost. Not to say there isn't overregulation. I hear from colleges and college presidents where they say they just can't keep track of all the regulations they are supposed to comply with, but I don't think that there is good research evidence that regulation is what is driving the prices.

Often what seems to be driving the prices, including the water parks, is demand for a lot of things. Students will go to a college that gives them more programs, that gives them nicer dorms, you know, the water parks. And part of that is because so much of what they consume is paid for with third-party money.

Mr. HOLDING. Thank you. Mr. Chairman, I yield back.

Chairman ROSKAM. Mr. Rangel.

Mr. RANGEL. Once again, Mr. Chairman, I thank you for your insight in using the Oversight Committee to help us wrestle with some serious national problems.

I am so sorry I was torn away on a legislative issue, but as you know, we are wrapping up, and we all have conflicts. But for this panel, where my community where I was born and raised in Harlem, New York, I don't know any African Americans my age that went and graduated from college without the assistance of the GI bill. That would mean people older than me that were in the so-called great war, not just the Korean War, and of course that meant the stability of the family meant that they could, they had the knowledge to send their kids to school.

As I look forward to the future of our great country, it seems to me that our workforce has to be competitive if we are going to succeed and that it is not just a question of intellectual ability, but it is a question of national security.

Does anyone on this panel believe that the education of our workforce is not directly connected with the security of the United States of America? Because I am constantly reminded by our leadership that the founders of the Constitution did not include education to be one of the mandates, and it is a State responsibility. And I told our President in no uncertain terms there was nothing in there about health care either, being a State responsibility, and yet I don't really believe, as we talk here today, that our country is prepared to leave our national security to the States.

I have universities that have campuses all over the world. Are you telling me, Mr. McCluskey, that my national security is going to be tied up because university presidents want to make an appeal to families that want their kids to go all over the world on trips and whatnot? I don't believe that.

There has to be a basic minimum commitment that our young men and women are going to be productive no matter where they come from. Has anyone spoken to that? Because you can just refer me to the document that I can pick up and not take time. But I don't want to talk about education in terms of the will or the needs of private schools. This is my country, and uneducated people are not productive people, and they are sucking the lifeblood out of us in many communities, white and black, all over the country. Anybody want to make any short comment on that issue?

Ms. BAUM. I would like to address it. I think you are absolutely right to be pointing to the need to provide education for many people in this country who can't afford to pay for it. When we talk about the demand side and we talk about third-party payment, the reality is that there are a significant number of families in this country who have enough money to pay the highest college prices on their own. Those are the people who are demanding the kinds of things that many of us question.

Mr. RANGEL. Let me interrupt because I am for national health insurance, but that doesn't mean to me that wealthy people can't kick it up to any notch they want for any other type of medical attention that they can afford. I am saying you shouldn't have to be in the military to be evaluated as to what contributions you make to this great country with access to a proper education, and that doesn't mean going to Europe in order to get a degree.

Ms. BAUM. No. And that is exactly right. And the fact is if we say people need to pay with their own money, then what do we do about all the people who don't have the money to pay, and those are the people you are talking about who are critical of——

Mr. RANGEL. Mr. Chairman, you help me because I am dedicating my retired life to helping kids who have the dream but they don't have the access. And whatever work has been done on this subcommittee, I want to assume it as a part of my expertise. And I thank you for the opportunity.

Mr. MCCLUSKEY. Can I respond since I was mentioned?

Mr. RANGEL. Certainly.

Mr. MCCLUSKEY. I think education is absolutely important. I don't disagree. But we have to look at what we have actually gotten as a result of huge subsidies, including through the Federal Government in terms of education. So we talk about education often, and we think, well, it is sending people to school, but we don't actually have good evidence that people have learned a whole lot, and in particular commensurate with what we have spent in higher education.

In fact, in my written testimony, I talk about the evidences. Over the last several decades we have had decreases in the amount of time spent studying. We have had decreases in the literacy of people with college degrees. So I don't know that the subsidies actually lead to more education. And it is also I think important to note, also in my written testimony, in 1970, 6 percent of dependent members of the lowest quartile income families obtained a Bachelor's degree by 24. After all our subsidies, that has now risen to just 9 percent. Meanwhile, from the upper quartile, we have gone from 40 percent with a Bachelor's degree to 77 percent, so I am just not sure all these programs are actually doing what we want them to do in terms of providing more education.

Mr. RANGEL. I never mentioned subsidies. That is a dirty word, and I know it.

Chairman ROSKAM. Mrs. Black.

Mrs. BLACK. Thank you, Mr. Chairman. I first want to knowledge my subcommittee chairman, Mr. Davis, for the working group that we chaired on the tax subcommittee in simplifying the Tax Code so that people would be able to use the Tax Code to their benefit on the educational tax credits.

We actually did produce a bill, and it was passed here in the House. Unfortunately it did not get taken up by the Senate, but that doesn't mean that we don't continue to work on that, and I am very proud to have had him as my co-chair on that.

Mr. McCluskey, you did help us out and came to our hearings and testified on at least one if not more of those hearings, so thank you.

I want to turn to 529 plans, that haven't been talked about yet. Obviously they can be set up by educational institutions. They can be set up by States that allow family and friends or actually anyone to set aside money for a specific student's higher education. The investment returns on that money won't be taxed so long as the money is used to pay for the student's educational cost.

President Bair, I want to give you the opportunity to talk a little bit more about this. I would like to ask you a few questions about how families are using these 529 plans, and as a matter of fact in your testimony, you talk about your Saver's Scholarship. We know that less than 3 percent of families in the United States are using this tax advantage college savings plan. Why don't you think more families are using this opportunity?

Ms. BAIR. Well, I think a lot of it is education. That was one of our goals, and it is for ESAs as well as 529s to try to bring attention to this tremendous benefit and encourage parents to start saving—parents who do have the financial capacity to save, to do so. There are a lot of families who are cash strapped, and it is very difficult to put money away, but there are some that can and should. And you are right; this is a great way to do it given the tax benefits.

I would say though on the back end, and there are again the synergies between the tax rules and the education rules about who qualifies for need-based aid. But 529s, you are still penalized a little bit for Federal aid. I think it is 4 and a half percent or something. But you are still penalized a bit. And then I think as a grandparent, it is a contribution of grandparents 529, it is taxable. There are some really complex rules that can trip people up and scare them off, and that might be something this committee would want to look at further.

I had 529s. My son is here. Yes, we were full pay at Swarthmore, which only has a 3 and a half percent draw on its endowment by the way, but who is naming names? He got a great education. But I think there are some things you can do there as well.

But, yeah, simplifying the rules, maybe that would be a good corroborative effort with the education oversight committee, so that 529s and ESAs are not penalized under Federal aid programs. It just doesn't make any sense.

Mrs. BLACK. That was going to be my next subject, is that they are dis-incentivized by doing that and what your thoughts are about how we can get these 529 plans to be a better vehicle for families to actually save for their children or grandchildren?

Ms. BAIR. Well, I would say, this may sound radical to some, but I would for loan programs, not grant programs, but for loan programs, Federal aid loan programs if we are going to stick with a loan model, why have all these rules about what you can contribute and what you can't? Why not just simplify it. I mean, we are building in such complexity to make sure somebody who has actually got some money isn't going to get more aid than they should need, and it really scares off the low-income kids and their families.

We had this new program for first-generation program called George's Brigade. FAFSA is absolutely daunting for them. So I think you just need a little bit of cost benefit analysis, the complexity, and the elaborate nature of this application process to try to calibrate what need is against what are you really getting from that, and why not just let everybody borrow up to a certain amount, a commonsense cap of some sort, and dramatically simplify this and make it easier for everyone, and then you don't have to worry about disincentives.

I mean, kids even a summer internship will penalize their ability for aid the next fall. It is just all the wrong signals and all the wrong incentives.

Mrs. BLACK. Mr. McCluskey, do you have a follow-up on that when you see 529s and how we can do a better job with helping families to plan for their future for their children and grandchildren?

Mr. MCCLUSKEY. Well, I pretty much just echo what you said, which was that for one thing, they are very complicated. But I will go a little farther than that. When the Obama administration proposed eliminating 529 plans, I actually thought it was a good idea. I think it is a good idea because that sort of skews toward wealthier people. I think if we are going to have aid programs, we should focus them as much on the low-income people who really need it as is necessary, so I look at 529 plans. I look at Parent Plus loans. I look at lots of aid that skews higher income, and it seems to me that we should begin to phase out that sort of aid so we can focus most on the people who need it the most.

Mrs. BLACK. Well, I have run out of time, but I think this is an interesting subject, and going back to Mr. Reed's comment about his family and how his family will not get the same benefits that other families may get even though they have a desire to go to a certain school.

It is a dis-incentivizing program to say I am going to save and do the kinds of things that need to be done, and the universities also, and how they may benefit from this. But I think this is one we may need to dig into a little deeper.

Thank you. I yield back.

Chairman ROSKAM. Mr. Renacci.

Mr. RENACCI. Thank you, Mr. Chairman. I thank you for holding this hearing. I appreciate the witnesses being here.

This has been a great learning experience for me, as all hearings are, because I really listen intently. I got to tell you, there are four things that I took out of this in listening to your testimony. Number one, student aid and loans increase college costs. Mr. McCluskey, you mentioned that. Ms. Baum, you mentioned that private universities hold one-third of the total endowments. That was a pretty shocking statistic.

Mr. McCluskey, you talked about shining a bright light on endowment uses. I would love to figure out a way, how to shine a bright light on non-educational, non-uses for academics, on that form 990, so we have got to figure out a way to do that. And then I want to roll back to what was discussed a lot, which was student loans versus outcomes. It is kind of interesting, when I went to college, which just seems like just 3 years ago, which was 30 years ago, I still remember my parents didn't have very much money. In fact, they didn't have any, and I had to figure out a way to go to school.

So I had to borrow and I had to work. And, Ms. Bair, you talked about equity. My equity was I worked 3 jobs. That was my equity contribution. And my debt. And I also remember looking at my debt. My cost of college was $2,500 a semester back then. So I said $20,000 a year. I cannot spend—I have to make sure my debt is in line to the job I was getting. And back then I still remember the day I was going to be a police officer and I knew the salary was 8- or 9- or $10,000, and I thought I can't let my debt get out of hand.

Today I have people that I hear that their debt is they buy, one instance where a family's daughter has three brand new cars because she wrecked two of them, all on student debt. So currently the amount of outstanding student debt stands at $1.2 trillion. My debt had to be for books and for tuition. It couldn't go to cars and everything else. I had to figure out ways. And, again, I look at my debt. I wanted to go to law school. I realize my debt was already too high. I couldn't go to law school. I had to get my job first, and then I attempted to go to law school, which ended up going in a different direction.

But maybe if we can touch on, Mr. Amburgey, and President Bair, what responsibilities do colleges and universities have to avoid saddling students with debt they can't pay back?

Ms. BAIR. Well, I think they should. I think we do counsel our students. We do keep an eye on it. Our George's Brigade, we are capping it at $2,500 a year, and I think there again, the Department of Education in terms of giving, making it clear that schools have flexibility to say, no, you can't, even if you are entitled under the Federal programs, we don't want you to borrow that much. I think in certain areas it is not completely clear, so that might be an area where Washington could help. But, yeah, just capping it and certainly better disclosure, I think, and financial education and counseling up front.

When we had our Dam the Debt Program, I got all of our seniors together announcing the program that we had some money to pay down their borrowing for the last semester. And I went through a little exercise with them. So I said, you know, we are paying down $2,700 of your principal. Who can show me why it is actually more than $2,700. And unfortunately nobody raised their hand, so we got into a talk about compounding interest and since we were reducing the principal, they wouldn't have to pay interest on that amount.

But I look at every opportunity to do this, and I think it is incumbent on schools to do so. But, again, I think having clarity around the authority of a school to just say, no, even if these Federal programs allow you to do this, we don't think it makes sense for you to do so. I think that would be helpful. And you are right. It is not always—these Parent Plus loans are really something, and we have very little control over that and what they are used for.

There again or maybe a more direct way, is to have some type of overarching cap on the total amount of federally backed borrowing anybody can do per student. Maybe it is $50,000, I don't know, but something to keep this within reason. If they want to go beyond that, then they have to work. They may have to go to the private market where there is going to be a lot more discipline. We need consumer protections there, too. But we don't have the proper controls in place to make sure the borrowing makes sense and that it is used for the right purposes.

Mr. SCHNEIDER. I do a lot of work with State governments. The State of Texas in particular is very interested in this issue and has a strategic goal of making sure that student debt is at a level commensurate with the wages that are expected for any career or any program, and so we should look at some of the State work that is going on to help students understand the level of debt in relationship to earnings because that is really what really matters.

And if you borrow $30,000 for a $75,000 a year job, that is great. If you borrow $75,000 for a $30,000 a year job, you are going to be in trouble. And States, especially the State of Texas, is working very hard to communicate that kind of information and shine a bright light on that particular problem.

Mr. RENACCI. Thank you. I yield back.

Chairman ROSKAM. So look at your watches. 11:30 a.m. You are before the most efficient subcommittee in Congress. All of our hats are off to you all. Give me a couple minutes because I want to sum up and raise a couple of points.

First of all, thank you for your testimony. You get the sense from all of us that we are curious. We want to learn. We want to learn more. There is an incredible opportunity I sense for us to do a lot of good all the way around.

I can't resist, you know, Mr. Rangel mentioned this idea of these really lush programs, and Mr. Reed mentioned a couple of them that just seem kind of indulgent and too luxurious. And I am reminded of a cross country trip that we took when I was a young boy, and we were disobedient in the car, and it was not going to end well. And my father pulled into a restaurant. He was completely disgusted with all of us. We thought we were going to order a great breakfast and have all this stuff. He turned to the waitress and he said they will take pancakes and water, and they will be happy.

And, you know, my sense is that we could go to Rangel University. You would go in there, and there is the science building and there is the liberal arts building and there is the gym, and call it a day. I think that there is some counter-pressure that can be put on higher education so that they are not indulging in this. And we are not going to get to that today, but there is an issue there that needs to be spoken about and needs to be dealt with.

Another issue, a theme that I have heard today, is this increased level of transparency, whether it is 990s or the FAFSA form, I will tell you I would rather have dental work than fill out one of those FAFSA forms. It is the most unpleasant, difficult thing. You are schlepping for boxes here of records here. You are anticipating sort of, well, I think this is what is going to be happening because maybe the taxes aren't done at the time when the FAFSA form is due, and it is a very daunting enterprise for the most sophisticated among us, and I can't imagine what it is like for somebody that doesn't have much background in those things.

I think it is an interesting thing, and I have not talked about this publicly, but it would be an interesting thing for us to be thinking through, well, what would it be like if we were to incentivize donors to contribute towards scholarships? What would that be like? And it is not unprecedented in the Tax Code. We have Section 170(e)3 of the Internal Revenue Code right now that creates an incentive for companies to contribute inventory donations that get an extra benefit—it is cost plus 50—if the organization that is receiving it is benefitting the needy as that defined in the code. That is interesting.

What would a donor look like—what would the disposition of a donor be if one gift were to go to a building, and that is treated as a normal whatever, but another gift says, no, no, no, we are going to create more of a value to you, donor, on this enterprise. I think we need to do some more exploring. I am not necessarily proposing it, but I am saying that it would be a level of inquiry that could be pretty interesting because it doesn't matter where you are on the political spectrum, everybody is agreeing that that sort of direct giving towards enhanced student aid and scholarships is a good thing.

We also need to get a better, better feel for this bubble because it is here. It is going to burst, and it is really interesting. I think it is manifesting itself in my area where my kids, I have got three kids out of college, one in college right now. And so we have gotten a lot of the direct mail over the past few years, and there was a postcard that came in that got my attention, and it was a student and a picture on the front of the postcard that says I am going to the University of Illinois, dot, dot, dot, and then you turn it over, and it says and I am starting at the College of DuPage, which is our local community college. And I am hearing from a lot more folks at home who 10 years ago would have not really thought about that route, but now they are saying it just makes no sense for me to spend X amount, tens of thousands of dollars, for these 2 years of schools when I can go to the community college, which are doing a fabulous job in our area, go to the community college and so forth. So some of the market discipline is beginning to happen, and I am starting to see it.

The other thing we have got to figure out is how do we make sure that kids don't get whipsawed in this process? So you are a student in Harlem. You are a student on the west side of Chicago. You are a student who you might think is in Harlem or you might think is the west side of Chicago, but you are in the 6th District of Illinois; you are in my constituency, and you need some level of direct aid. You know what I mean? I mean, to your point, Dr. Baum, a tax credit doesn't do you any good. You need the capacity of having cash to pay the bills. So all these things that we are thinking about we can't put that student at risk or make sure that, you know, we need to protect them from being whipsawed.

This other discussion that we didn't have today, but I think there was an allusion to it in Mr. Lewis' opening statement, and that is he was raising the point of what I am characterizing, and maybe there is some other term of art about this, but what I am characterizing as an indirect benefit as opposed to a direct benefit. So we have largely been talking about direct benefits for students, and that is a good thing for us to talk about.

We also need to understand what are the indirect benefits that are coming from universities that help us all, the research side of things and so forth. So there is no level of anxiety about a contribution that is made to just a straight up research institution. We admire that, and we think endowing that is even a good thing. We need to be more sophisticated in our thinking to tease out and distinguish between a direct benefit, and maybe the direct benefit needs to have a higher incentive. Great. Let's look at that, but let's not lose sight of indirect benefits, particularly coming from higher educational institutions.

And then finally, I want to echo what Mrs. Black was speaking about, and that is 529 plans, 529 contributions, that perversely disincentivize other grants and so forth. And that just makes no sense at all.

Let me make one final pitch. It is a quick personal reflection, but I think it is worthy of people's attention, this idea of investing in people and how the investment in people can pay disproportionately forward. We know how important buildings are. You need buildings, and we need all these physical things. But just a quick 60-second story. My dad grew up in a very adverse situation. And there was an Iowa farm couple who lost their only son—his name was George Jenkins—in the Normandy Invasion. And Mr. and Mrs. Jenkins, through a wild set of circumstances decided that they were going to honor George's memory, and they paid my father's tuition, room, board, books, fees, spending money. They bought him this class ring. They put him through college. And they literally took him from a trajectory of this direction, and they put him on a pathway of this direction. They literally changed his life. One life. Fast forward 30 or 40 years. My dad ends up with other like-minded business people starting a not-for-profit organization, converting inventory donations into scholarships, interestingly enough, and they end up putting 10,000 kids through college. And that is just one life. That is the investment in one life.

So maybe it is that what our committee can be doing is to be thinking through how do we make sure that we are putting a priority on that sort of direct investment in students, not taking away from indirect benefits, but recognizing that there is nothing more precious, nothing more significant, than investing in an individual.

So I know I speak on behalf of our whole subcommittee that we are deeply appreciative of your time. You can count on us to continue to be in dialogue and discussion.

And I want to thank my colleagues for actively participating and asking thoughtful and inquiring questions. Thank you. The meeting is adjourned.

[Whereupon, at 11:44 a.m., the subcommittee was adjourned.]