Endowment frequently asked questions

1. **What is endowment?**

   The endowment is the sum of Cornell’s permanent invested capital used to generate funds each year for the university. Cornell’s endowment is the university’s financial foundation—a stable, permanent source of funds. The value of Cornell University’s endowment is currently $5 billion.

2. **How does the endowment work?**

   Unlike a personal checking account, the endowment is not a cash reserve that Cornell can draw upon at will. Instead, virtually all endowed funds are invested, and a portion of the earnings is released each year to support the university and the purposes specified by donors. In most cases, the university is legally prevented from depleting the original value, or principal, of an endowed gift.

   Cornell trustees determine how much of the endowment to spend each year. The average payout rate over the past three years was equal to between four and five percent of the value of the endowment. That means a $1 million endowment may pay out as much as $50,000 a year. Earnings in excess of the payout are returned to the endowment to preserve its purchasing power against inflation, providing a cushion for periods of poor market performance and allowing for modest growth over time.

3. **Does income from the endowment have a significant impact on the university’s budget?**

   Yes. Endowment income contributes about 11 percent of Cornell’s budget. Without this stable source of annual income, the university would need to make up the difference by cutting expenses further, raising tuition more, or both. The more the endowment grows, the less Cornell must rely on other sources of revenue.

4. **How is a gift to endowment different from an annual gift or another type of gift?**

   Different gifts help Cornell in different ways. Annual gifts are vital because they meet present needs, but their full value is spent immediately. In contrast, endowment gifts provide a source of perpetual support for the university. Ezra Cornell founded the university with an endowment gift of $500,000. Before his death in 1874, he made total gifts to Cornell that amount to just over $37 million in today’s dollars, and those initial gifts continue to generate income for the university. Each new gift to the endowment adds to Ezra Cornell’s first endowed gift and provides the university with greater financial security and capability.

5. **How much does an endowment gift grow over time?**

   Based on historical averages, a $1 million endowment gift made today can be expected to pay out about $500,000 over the next 10 years. During the same period, its principal will nearly double as a result of reinvested earnings.

6. **Can endowment gifts support any type of funding need at the university?**

   Yes. The total university endowment is made up of many, smaller endowments supporting people, programs, and facilities across Cornell and throughout its colleges and units. Several endowments support financial aid for students or provide funding for faculty positions. Scholarships help Cornell attract the best students from a wide range of socioeconomic backgrounds as the university’s financial-aid policy eliminates or reduces debt for students from low- and middle-income families. Endowed faculty positions make it possible for Cornell to attract the best scholars in the world. With the prestige associated with named professorships, these endowments can also be a powerful aid to recruitment. Other endowment gifts may provide support for a library collection, funds for an athletic team, or another
university endeavor designated by the donor. Some gifts to endowment are unrestricted, allowing the university to direct proceeds to areas of greatest need.

7. **We hear a lot about Cornell’s endowment per student and how it compares with that of our peers. What is this ratio, and why is it important for comparisons?**

To understand how well an endowment meets the financial needs of a university like Cornell, the total size of the endowment needs to be measured against the total number of people it supports. This is the endowment-per-student ratio, which serves as a yardstick for comparisons across different-sized institutions. Some universities have smaller endowments than Cornell but are much wealthier on a per-student basis. In 2010, Cornell’s endowment ranked 18th by total size. On a per-student basis, it ranked 16th in 2009.

8. **Annual endowment payout is typically 4 to 5 percent of endowment principal. Why should I make a gift to Cornell’s endowment when I could invest it for a higher return and then give you the earnings each year?**

There are a couple of important factors to consider. First, the annual payout from the endowment is *not* the same as its return on investments. A significant portion of yearly gains is reinvested to protect against inflation. Cornell’s long-term investment pool, where most of the endowment funds are located, has historically outperformed leading market indicators such as the Standard and Poor’s 500 Index by a significant margin. Most important, gifts to the endowment provide a stronger and more stable financial base that the university can count on each year, regardless of how the market is performing.

9. **With so much criticism of large university endowments these days, how can Cornell justify the need to grow its endowment now?**

There is no question that some universities have amassed large endowments. Cornell’s own remains comparatively modest in relation to those of its peers, especially when the university’s annual income is measured against its budget needs. Right now, endowment provides almost one dollar out of every 10 that Cornell spends each year. Ideally, it would do much more. The cost of delivering a Cornell education and performing world-leading research will continue to grow faster than inflation, and the university must find dependable sources of new funding to keep pace. It is unrealistic to expect substantial increases in state and federal dollars during lean budget times. Raising tuition hurts those who can afford it least and, in turn, increases the demand for university-provided financial aid. Growing the endowment is the best way to guarantee Cornell’s long-term financial health, sustain its educational excellence, and honor its commitment to providing access and affordability to admitted students through need-based financial aid.

10. **Donors want to know that Cornell is managing the endowment effectively and investing wisely. What is the endowment investment strategy, and how has it changed in recent years?**

Because the endowment is Cornell’s financial foundation, investments are chosen with long-term growth and stability in mind. Cornell adjusted its policies in 2000 to increase the number of asset classes in which funds can be invested. As a result, Cornell’s portfolio is more diversified and less exposed to risk while also having more flexibility to take advantage of changing market conditions and capitalize on growth areas.
11. Who manages Cornell’s endowment investments? What is the decision-making process?

Cornell employs a staff of 20 professionals with expertise in the management of large endowments. They closely monitor the investments from day to day, and their work is overseen by the Investment Committee of the Board of Trustees and three subcommittees composed of experts in the most challenging types of investments: real estate, private equity, and hedge funds.

12. How has the endowment performed recently?

In FY10, Cornell’s long-term investments experienced a positive overall return of 19.9%. This return marks a significant improvement to the 12.6% return in FY09, allowing the university to recover endowment losses experienced after the economic downturn of 2008. This past year, the Cornell endowment paid out $266 million in support of the university’s students, faculty, programs, and operations.

13. How have endowment gifts generated from the university-wide campaign strengthened Cornell in the past decade?

Far Above … The Campaign for Cornell raised $1.25 billion through endowment gifts. Cornell Now – 2015, the ongoing campaign expansion, has recently increased that figure with $131.4 million in gifts to the endowment. Combined, these funds helped to elevate Cornell’s endowment per student and increased permanent support for endowed faculty positions and endowed scholarships. Much more endowment support will be required, however, to meet the university’s immediate and long-term needs.

14. How important are endowment gifts to the success of Cornell’s campaign?

Increasing the endowment is critical to the campaign and the continued excellence of the university. Gifts will allow Cornell not only to preserve its signature strengths but also enable it to fund its current priorities and achieve its future goals. A larger endowment will also help control tuition increases while helping Cornell to attract—and keep—the very best faculty and students. Today’s endowment is simply not large enough to support Cornell’s many vital endeavors.

15. How do I learn more about Cornell’s endowment and endowed gifts to the university?

To find out more about the different ways you can make gifts to Cornell, please visit www.giving.cornell.edu. You can also find more information about Cornell investments and endowments at www.investmentoffice.cornell.edu. For questions and assistance regarding making gifts to Cornell, we invite you to contact us at the Office of Trusts, Estates, and Gift Planning or visit alumni.cornell.giftplans.org.

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