



# Stanford's Endowment: Frequently Asked Questions



# Stanford's Endowment

## Frequently Asked Questions

---

### What is the endowment?

**ENDOWMENT REFERS TO ASSETS THAT ARE INVESTED FOR THE LONG TERM AND INTENDED** to provide a permanent source of financial support for the university. This is in contrast to expendable funds, which are typically used for immediate needs. Stanford's original endowment was created in 1885 by Leland and Jane Stanford. Over the ensuing years, thousands of donors have established endowed funds for scholarships, fellowships, professorships, and many other purposes.

When a donor creates an endowed fund, the gift “buys shares” in Stanford's Merged Pool (MP), which operates similarly to a mutual fund. The value of the shares changes depending on investment returns. Each year the Board of Trustees sets a payout rate, much like a dividend, for MP shares. Payout is the amount available to be spent annually for the fund's designated purposes. (See “How does Stanford determine its endowment payout?” for more information.)

Today, Stanford's endowment comprises nearly 7,000 individual funds, each one named and used in accordance with the donor's wishes.

“...it shall constitute the foundation and endowment for the University herein provided, and upon the trust that the principal thereof shall forever remain intact, and that the rents, issues, and profits thereof shall be devoted to the foundation and maintenance of the University hereby founded and endowed, and to the uses and purposes herein mentioned.”

**Leland and Jane Lathrop Stanford,**  
Stanford University's Founding Grant, 1885



## How big is Stanford's endowment?

---

**AS OF AUGUST 31, 2011 (THE END OF STANFORD'S FISCAL YEAR), THE VALUE OF THE** endowment was \$16.5 billion, an increase of 19 percent over the previous year. The increase reflects the impact of investment returns plus new endowment gifts and transfers, minus the payout to support university operations. "While we're thrilled with investment returns and endowment growth over the past two years, Stanford's endowment still has not recovered the losses sustained in 2008–09," explains Randy Livingston, vice president for business affairs and chief financial officer.

Still, Stanford investment management has been strong over the long term. Over the past 10 years, the Stanford MP has achieved an annualized return of 9.3 percent. During the same period, the U.S. equity market, as measured by the S&P 500 Index, increased by an average of 2.7 percent per year, and the U.S. bond market, as measured by the Barclays Aggregate Bond Index, increased by an average of 5.7 percent per year.



L. A. CICERO/STANFORD NEWS SERVICE

*Stanford is among the few private American universities that offer need-blind undergraduate admission.*

## How does Stanford determine its endowment payout?

---

**STANFORD'S BOARD OF TRUSTEES APPROVES THE PAYOUT RATE ANNUALLY, TYPICALLY** targeting a long-term average yearly distribution of about 5.5 percent from endowed funds. This target average takes into account the long-term viability of the fund, despite annual fluctuations in the fund's value. The Board of Trustees has determined that the target is a prudent amount that balances the needs for ongoing support with perpetual preservation of the endowed funds.

The payout does not depend on particular components of return (like "income" or "appreciation") because the university invests its endowment for total overall return. Thus, unless the donor provides otherwise, payout can be satisfied from a fund's income, appreciation, and, if those amounts are insufficient, from principal or "historic gift value." In all events, the Board of Trustees is extremely careful to calibrate the payout to avoid jeopardizing the endowed funds' ability to support their purposes in perpetuity.

The actual payout rate for a particular year usually results from a formula that incorporates various factors, including the long-term average target rate, as well as a "smoothing rule." The smoothing rule normally maintains reasonably steady support for each fund's purpose despite short-term market volatility. In February of each year, the Board of Trustees determines the payout as a dollar amount per MP share that will be paid during the next fiscal year. The university makes this decision more than six months before the next fiscal year begins in September, to allow departments to plan their budgets in advance.

## How has Stanford managed the endowment during the economic downturn?

**IN LIGHT OF THE EXTRAORDINARY DECLINE IN THE ENDOWMENT'S VALUE IN FISCAL YEAR 2009**, Stanford made the decision to suspend the “smoothing rule” normally applied to endowment payout for fiscal years 2010 and 2011. Rather, the university decreased payout on individual endowment funds by 10 percent in fiscal year 2010 and 15 percent in fiscal year 2011, a sharper reduction than the formula would have dictated.

Taking a “bigger hit” than the smoothing rule would have called for helped Stanford in several ways. It helped the university adjust to the reality of a permanently reduced baseline budget. It encouraged a more strategic approach to reductions than would have resulted from a drawn-out series of smaller cuts (which would also have eroded morale). And it has helped the endowment recover much more quickly than it would have otherwise.



L. A. CICERO/STANFORD NEWS SERVICE

*Stanford confers approximately 2,900 graduate degrees each year.*

## What percentage of Stanford's expenses is funded through the endowment?

**IN FISCAL YEAR 2011, ENDOWMENT PAYOUT COVERED APPROXIMATELY 22 PERCENT OF** Stanford's operating expenses. Solid investment management, a prudent payout strategy, and robust support from donors have meant that Stanford has been able to grow this number from 9 percent in 1991. Still, Stanford must fund more than two-thirds of its operating expenses—which are projected at \$3.7 billion in fiscal year 2012—from

government grants and contracts; student tuition and fees; nongovernment grants; and gifts from alumni, parents, and friends. Over time, Stanford seeks to increase the percentage of operating expenses covered by endowment payout, thus providing a permanent source of funding for academic programs and financial aid.

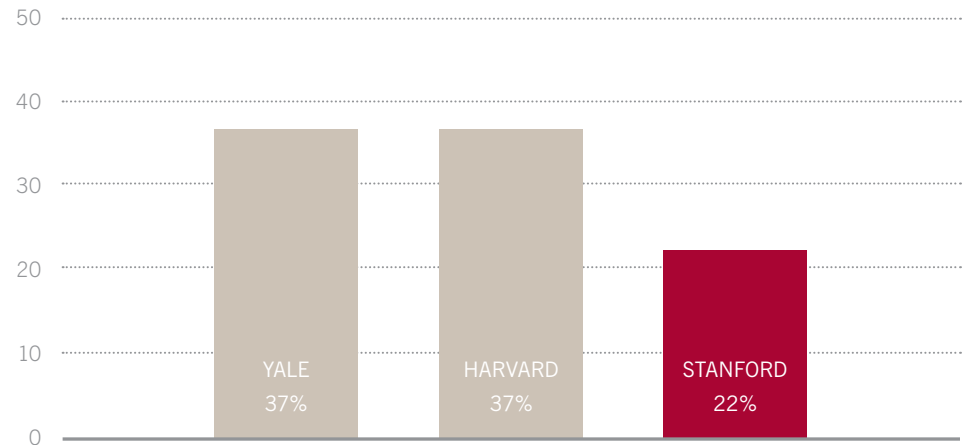


L. A. CICERO/STANFORD NEWS SERVICE

## How does this compare with other universities?

**ENDOWMENT VALUES FOR HARVARD AND YALE ON JUNE 30, 2011 (THE END OF THEIR FISCAL years),** were \$32 billion and \$19.4 billion, respectively. Harvard's endowment provided 37 percent of its operating expenses; Yale's provided 37 percent as well.

### Percentage of Expenses Covered by Endowment



## Can Stanford dip deeper into the university's endowment to cover more expenses?

**PEOPLE OFTEN MISTAKENLY THINK OF AN ENDOWMENT AS A KIND OF INTEREST-EARNING** checking account that can be drawn on to cover expenses as needed. It's actually more like a trust fund, one that must last not 50 or even 100 years but in perpetuity—and without its real value eroding over time. An endowment is therefore invested for the long term, and its purchasing power must be maintained in perpetuity. In periods of strong returns, we are able to reinvest a good portion of investment income and appreciation so that we can draw upon it in leaner years. The economic volatility of the last several years underscores the value of the university's long-term approach to endowment spending.



L. A. CICERO/STANFORD NEWS SERVICE

In addition, many donors designate the purposes for which their endowed funds may be spent. For example, funds given for one school or department cannot be used in another, and funds given for research cannot be applied to financial aid. About 75 percent of Stanford's endowment is subject to such permanent restrictions. In effect, this limits the university's ability to spend more of the endowment, since the areas where more funding is needed may not be areas for which more endowment is designated.

Stanford enrolls about 6,700 undergraduate students.

## Can Stanford's land be sold to pay for expenses?

**LELAND AND JANE STANFORD ANTICIPATED THAT SELLING LAND TO MEET IMMEDIATE NEEDS** might be a temptation, so in the Founding Grant they required that none of the land of their Palo Alto farm ever be sold. They did so because they believed those lands would provide for the long-term viability of the university. Their farm comprises more than three-quarters of Stanford's current landholdings.

Over the years, Stanford's Board of Trustees has chosen to apply the same principles of stewardship to the rest of the lands that make up Stanford's campus. The land is held in trust to carry out the aims of the Founding Grant: to support the university, either directly for academic purposes or indirectly through the generation of income used to further those purposes.

Today, Stanford University owns 8,180 acres of contiguous land spread over six political jurisdictions—unincorporated land in two counties (Santa Clara and San Mateo) and four municipalities (Palo Alto, Menlo Park, Woodside, and Portola Valley).

The central part of Stanford's land is home to academic buildings and support facilities, including classrooms and laboratories, athletic and recreation facilities, student and faculty housing, and the SLAC National Accelerator Laboratory. Two hospitals, a shopping center, and a commercial research park are also located on Stanford land. But after more than a century of dynamic operation and growth, nearly two-thirds of Stanford's land remains open space or is only lightly developed.

Keeping the land intact has allowed the university to retain one of the country's most magnificent campuses, which is a strong magnet for potential students, faculty, and researchers. And even the undeveloped land serves important academic purposes. For instance, the Jasper Ridge Biological Preserve covers 1,189 acres of the campus and has been the site of many fundamental studies in ecology, hydrology, geology, and archaeology.



L. A. CICERO/STANFORD NEWS SERVICE

*The university's Jasper Ridge Biological Preserve supports an average of 60 research projects each year.*

## Do small gifts make a difference?

**YES. LARGE GIFTS AND GRANTS OFTEN TARGET SPECIFIC NEW VENTURES OR ARE OTHERWISE** restricted. That makes even quite small gifts, which generally have few restrictions, enormously valuable to Stanford. In fact, the recent decline in the university's endowment combined with the increased need for financial aid means that gifts to The Stanford Fund are particularly crucial in meeting our undergraduate aid obligations.

Last year, most gifts made to the university were under \$1,000. But together, these gifts added up to millions of dollars that may be used for need-based financial aid, academic programs, solutions-oriented research into global problems, and programs such as the Haas Center for Public Service.



*The Stanford faculty includes 4 Pulitzer Prize winners, 16 Nobel laureates, 24 MacArthur fellows, and hundreds of members of the national academies. (Left: The late Arthur Kornberg, professor emeritus of biochemistry, and his son, Roger, professor of structural biology, are both Nobel recipients. Right: Computer scientist Daphne Koller is a MacArthur Fellowship award winner.)*

## How much of Stanford's expenses are covered by tuition? What role does financial aid play?

**TUITION ACCOUNTS FOR JUST 12 PERCENT OF UNIVERSITY REVENUES IN A GIVEN YEAR.**

What's more, tuition covers only about two-thirds of the real costs associated with a Stanford undergraduate education. Thus, even those paying "full price" are not actually paying the full cost of four years at Stanford. From the university's first days, a Stanford education has been subsidized by the generosity of the founders, alumni, parents, friends, and other donors.

Most students do not even pay full price, let alone the real costs. In fact, half of all Stanford undergraduates receive need-based aid directly from the university, up from 40 percent in recent years.

At the same time that the global economic crisis has negatively impacted Stanford's endowment, it has also taken a toll on many Stanford families. Partly as a result, the university's financial aid budget has increased by more than 50 percent since 2007–08. To address this situation, the university is looking to increase support for financial aid from The Stanford Fund and to continue growing the endowment for scholarships.

*For more information on Stanford's finances, please see the university's annual report: [annualreport.stanford.edu](http://annualreport.stanford.edu).*



*Tuition covers only about two-thirds of the real costs of a Stanford undergraduate education.*



For questions, please contact:

**Office of Development**  
The Frances C. Arrillaga Alumni Center  
326 Galvez Street  
Stanford, CA 94305-6105  
T 800.227.8977

