

PRESIDENTIAL WHITE PAPER

The Economic Framework of a CMC Education



THE CAMPAIGN FOR
CLAREMONT MCKENNA

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September 2008

The Economic Framework of a CMC Education

The strategic positioning of the College's endowment, investment policy, and spending policy will ensure that CMC has the resources to compete in the complex world of higher education and fulfill its ambitious mission.

There is a national debate about endowment levels, tuition pricing, and financial aid. Much of the [debate](#) is driven by concerns that the wealthiest institutions are “hoarding” endowment and not allocating sufficient resources to financial aid and other essential programs. This debate comes in the context of discussions about rising tuition and the need for access to higher education for a broad range of students.

At Claremont McKenna College, we believe that a strong endowment is essential. It generates resources needed to keep tuition increases at a reasonable level, while supporting a highly competitive financial aid program *and* enabling the College to strengthen its programs and activities. CMC, like many other liberal arts institutions, relies principally upon three funding sources: tuition revenue (net of financial aid) at 55 percent; endowment income at 35 percent; and annual gifts at 10 percent. Annual gifts are an essential source of operating support, particularly for our need-based financial aid program; this funding source analysis highlights the importance of endowment and annual giving support. Even “full pay” students receive a significant subsidy relative to the actual cost of a CMC education—tuition and fees only pay for approximately 55 percent of the total cost of a CMC education.

CMC's current endowment level is strong, but we are still well behind wealthier peer institutions. Among national liberal arts colleges, the College's endowment per

student of approximately \$465,000 places us in the top tier in the country. When we factor in, however, the elite national universities with whom we compete for students and faculty, our endowment is a fraction of many of these [schools](#). The Campaign for Claremont McKenna seeks to strengthen the endowment, and this will have a major impact on our efforts to attract superb students and faculty and bolster our diverse programs. As we look at how to enhance our endowment to remain competitive in higher education, we need to understand that endowment growth is driven by three primary factors: operating budget and spending policy discipline, investment policy, and gifts and other additions to endowment.

With respect to the operating budget, the College's philosophy centers on operating within a balanced budget and avoiding structural budget deficits, which erode the endowment. The College has an excellent track record of maintaining balanced budgets that also meet our strategic priorities—financial aid to attract the best students, competitive pay and benefits to attract top faculty and staff, and fully funding capital depreciation to provide for the long-term sustainability of the campus.

Our spending policy focuses on our desire to balance current needs with long-term needs to preserve the “purchasing power” of the endowment. Within the past several years, the College has also adopted a best practices spending model. The spending policy is based on the traditional idea of spending about five percent of endowment during a given year. The policy incorporates, however, “smoothing” measures to mitigate the effects of investment return volatility on the College's operating budget. In high return environments, the College will spend somewhat less than five percent; this helps restrain budget growth that would not be sustainable in the event of a market downturn. Similarly,

in low or negative return environments, the College can spend somewhat more than five percent. Again, this helps minimize the need for major budget reductions in the event of a market downturn.

During these volatile times in the market, Claremont McKenna is very fortunate to have exceptional expertise on the Investment Committee of the Board of Trustees. In the past several years, the Investment Committee has undergone a comprehensive governance and policy review process. Our investment policy has been revised to adopt a more diversified asset allocation structure, which maintains potential for strong returns while minimizing the downside risk of the market. The results of this strategy and the vision of our committee have been impressive: during the past five years, CMC has ranked among the top five percent of colleges and universities in terms of investment performance, as reported by the [National Association of College and University Business Officers](#).

We know that we cannot rely solely on returns to bolster the endowment. The Campaign for Claremont McKenna has already had an impact in terms of increasing the endowment—as of September 15, 2008, more than \$72 million has been committed to endowment in the campaign. These gifts support the campaign’s core goals of increasing financial support for students as well as recruiting, retaining, and supporting superb faculty members. Still, we are relatively early in the life of the campaign, and we anticipate significant new endowed gifts throughout the campaign.

While we focus on endowment in our fund-raising efforts, we cannot forget the importance of annual gifts. Annual giving remains the lifeblood of the College, allowing us to fund student and faculty programs, and giving us the flexibility to meet our most

pressing year-to-year financial needs. Increasing alumni participation in the annual fund is a key goal of the campaign. During FY 2008, 42.4 percent of our alumni made annual gifts to the College. While this number is encouraging, we lag behind many of our peer institutions in terms of alumni participation. The CMC Annual Giving Participation Challenge, funded by Trustee Steven Crown '74, will reward increases in alumni participation according to the level of increase, with special bonuses if the increase continues over five years.

The balance between increasing endowment while maintaining a strong annual giving program remains a challenge in every campaign. The Campaign for Claremont McKenna clearly has momentum with respect to endowed and annual giving, and the strategic focus on both of these areas will have major benefits for the College. Ultimately, the campaign will transform the financial framework of the College by enhancing our endowment and creating a culture of annual giving participation that will benefit future generations of students.