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Eric Jensen

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WGLT Sound Ideas interview with Eric Jensen, Nov. 10, 2017

Note: there are two segments of this interview. Recorded at the same time, the second segment aired on a different date- Nov. 15, 2017.

Mike McCurdy: Colleges and universities are raising concerns about provisions in the house republican's tax overhaul. They say that those changes will increase the cost of college for many students and their families while also cutting into endowments at private schools. The plan would impose a 1.4% excise tax on college endowments at private universities at which the endowment is more than $100,000 per student. That's a small percentage on a big number. GLT's Charlie Schlenker talks with Illinois Wesleyan University President Eric Jensen about higher ed. concerns.

Eric Jensen: Well, first off, I think this builds in flux. My understanding is that the new – today's version or yesterday's version of H.R.1 head up that limit to 250,000 per student. To put that in perspective, $100,000 per students means that we're gonna draw roughly 5% in income off of that and then use that for scholarship. So $100,000 in endowment generates $5,000 in scholarships for students. That's not exactly consistent with the picture of these wealthy institutions that are sitting on the resources. It's true- we're financially very secure. We have an endowment that's over $200 million, but when you actually think about how that's used – that $5000 per student, it's hardly excessive. We give something like $25,000 in average scholarships per student per year and so this endowment that apparently is big enough to be tax, is – is in fact, is generating something like a fifth of the total support that we give to our students. Our net tuition on average, for an entering student last year was about $21,000 even though our stated tuition was $46,000. So there's a picture of a – of elite, unaffordable institutions that are hoarding their resources. In our case, nothing could be farther from the truth.

Charlie Schlenker: Where is a healthy limit, then, for that sort of calculation? What qualifies as super wealthy that should be taxed and – and where is the cutoff for people who are comfortable but- but really not doing much more that getting by?

Jensen: Well, I think it's bigger than you might think. Think about a place like…Grinnell. Grinnell has a famously big endowment for a place, it's not much bigger than us, because they had warren buffet in large part because that warren buffet measuring that portfolio and he appears to be pretty good at what he does.

Schlenker: -sweet. (Jensen chuckles)

Jensen: Yeah…(chuckles)… so we – we – they've got more than 2 billion. We've got more than 200 million, and they've got the student body that's roughly the same size. And so that means that instead of $5000 per student, if they chose to use it all for scholarships, they could – they could use it at $50,000 per student. What that lets them do is open the door very wide to students that have very little ability to pay. They can – they can offer students essentially full scholarships and bear it out of that endowment and have a little but left over for some of the things that they need to use an endowment for. So even a big sounding endowment like 2 billion isn't really that big if it's put to use in service to students and then, well is 10 billion big? is 60 billion or whatever the Harvard number is - is at – is that a big number?

Yes. As a matter of fact, there is even some evidence that some schools have been using off shore – the paradise papers are showing that some schools are using off shore tax havens as a way of sheltering some of these very large reserves. I think the question is more about purpose than amount. And if – if it's really about hoarding endowments for endowments' sake, I think we may have an issue.

Schlenker: So per students is not really the right way to look at it, you have to look at other uses for this.

Jensen: I think per student is a reasonable matrix but I think that the number you might think of is fairly large. If I were to say to the average person on the street, that Illinois Wesleyan is – would qualify this $100,000 in endowment per student, one might think that that's a mark of a wealthy institution. Now let's be clear, we are fortunate to be financially secure, but then amount of income is actually thrown off by that… to be able to use on behalf of students is much, much smaller than people think. It's kind of like – an endowment is a little bit like a saving account because you want to have a fund for rainy day but you don't want to draw on it if you don't have to. An endowment is a little bit like a pension account. Although pension account you usually draw more than an endowment because you expand –

Schlenker: - you expect to-

Jensen: -yeah-

Schlenker: -exhaust-

Jensen: -you exhaust-

Schlenker: -by the time you kick the bucket-

Jensen: -So we draw much less than that – than we typically be the case when it comes to start drawing on a pension because we wanna preserve that principal forever. But we do wanna draw on the earning and use it for the things that we need to use. It's a little bit like that – you know, you hear about student debt, or you hear about – students who go to school and don't graduate and somehow that brush is used to tar an entire industry and… you know the truth. You know, if you're thinking about student debt, something like 10% of the kids coming out of high school go to for-profit institutions. Something like 20% of the loans go to those kids and something like 40% of all the defaults come from those kids. They also are highly unlikely, actually, to graduate. The whole point of going to school is to get that credential. So we're not like that. Illinois State is not like that. You know, there are a number of other institutions that are nothing… well, likely institutions that are responsible for the kind of adjunct that's being thrown around regarding, you know, this is allegedly homogenous industry. Our students have a debt that is under $30,000. That's on average and averages can sometimes mask outliers but that's – that's a loan number. Our students get something like $800,000 more in expected lifetime income as a result of that investment. We have default rates that are vanishingly small, about 2%. We have – we have a 95-96% of our students either are employed or in graduate school or in 6 months of graduation. We're not – we're not that place you hear about and I think by – by extension we are also, when you talk about the fact that we've had 200 million dollar endowment- we're not that sort of large holding onto the endowment sort of place that you often hear of. We're fortunate to be financially secure.

Schlenker: I haven't heard it. You actually say what level would be appropriate to tax them?

Jensen: Oh, I don't know. I think it has to do more with … are you… the conversation initially got started because there were a number of institutions that where characterized as simply holding on to their investment and letting it grow to the extent that they could let it grow and the question I think -

Schlenker: -Princeton, Amherst- those kind of-

Jensen: -yeah, and the question is I don't know about Amherst, Princeton and the question is well, at what point does it grow sufficiently large that you've reinvested and now you're beginning to use in a way sort of beneficial to – to – to society. I mean the education is fundamentally a good for society. By training people, by allowing them to realize their full potential, we're making an investment in them and which then pays dividend to the whole society. And so the idea that we as a society ought to care about getting our students educated, getting them out there and being productive to members of the workforce, and there are – therefore, I suppose by extension making sure that tax-advantaged endowments are put to good public use like educating students. I think that's a more meaningful criteria than simply a dollar amount.

Schlenker: This is Sound Ideas. I'm Charlie Schlenker. We're talking with Eric Jensen, the president of Illinois Wesleyan University about the implications of the tax bill on higher education. Let's frame it a different way. We mentioned Amherst, Grinnell, Princeton – they use their endowment for at least half their operating budget. How does Illinois Wesleyan stack up by that sort of measurement?

Jensen: Well, our operating budget is probably 6 or 7, maybe more times our – our normal endowment draw.

Schlenker: Not in the same league at all?

Jensen: No, not at all. I think most schools, if you talk to them, the schools with large endowments – I had a friend who was the president of institution that had a little over a billion dollars. They finally suspended. They committed in ways that are consistent with their mission but nonetheless are obligations. So if it's not all spent on student assistance, it may be spent on faculty or staff positions, it may be spent on general operating expenses for facilities and so forth. All consistent with the mission, but also obligated so they rely on tuition revenue in the same way that we do.

Schlenker: Do you believe there ought to be regulation to encourage that sort of consideration or to – to mandate that sort of consideration above and beyond a certain level?

Jensen: No. I think that colleges and universities are mission-driven places. We understand why we're there and I think even if you spoke to ….umm…. I think I read that Princeton made 7 or 8 figures, 9 figures off of the pharmaceutical patterns that have been developed there. Those, though, are then turned around and reinvested in ways that allow them either to generate new knowledge or to educate current students. Sometimes it's hard to see where that line would be drawn.

Schlenker: So nobody is really sitting on it in your view.

Jensen: No, no. I – in my – the cynical view that I have is that much of the sort of the provisions of H.R.1, especially as they're aimed at education or are aimed at generating current revenue at the expense of investment. If, for example, you reduce the tax credit to parents for educating their students, well, fewer students are going to be educated and would otherwise be the case and therefore, the benefits of society that would've accrued down the road, the investment isn't gonna happen. It's a very short sighted way of generating revenue in the short run and I think many other provisions of H.R.1 are like that.

Schlenker: Do you pay any taxes on your endowments, investment income as of today?

Jensen: No. we're a tax exempt charity and so, and as I mentioned our endowment is based on the donations of others to us and to the extent that we've earned through investing that at the earnings from those gifts.

Schlenker: The bill would also force college employees to count tuition breaks they receive as income. They don't have to do that now. So those working on a Ph. D or with college age kids – that's a recruiting tool for you, right?

Jensen: It's a very good one. Yeah – we're not gonna pay salaries that are – that approximate our corporate competition in town. And so, especially for those on the non-academic side, if we're competing for people in town, that's a really, really – I speak to you now as a – someone who's had couple of kids recently through school and I know you are a little bit in the same situation-

Schlenker: -oh, yeah -

Jensen: - These are real, real dollars that – that our – substantial hiring incentives and of course, for our faculty. There's two reasons that we like. One, of course, is that business, you know, we are educating students and we want our own children to enjoy the sorts of advantage that we're conveying to others. And then of course it's a hiring advantage for us as well. We don't pay as much as a research one school would pay for a… a host of reasons, but we do have this off-setting tuition benefit that helps. I went to an institution that didn't have that, I worked at an institution that didn't have that and in hindsight, kind of, looked longingly at that has a benefit that would've been wonderful to receive.

Schlenker: How much difference would you say that did make in the ability to recruit talent? Doing the A-B comparison…

Jensen: Yeah, hard to say. I think part of it is that at – at small privates like us, it's more the norm and so we would be at a competitive disadvantage if we didn't have it. And since we do, it's kind of hard to say just quantitatively how big the disadvantage is.

Schlenker: There are some other provisions in the text bill that colleges and universities are crazy about including the end of student loan interest deduction for those paying off their student debt. What do you think that will have as an affect long-term, if passed?

Jensen: Again, it's – it's – all these are in the margin dis-incentivizing the process of getting a higher education degree of some sort. I think that the bigger deductions are unfortunately concentrated among those who, wisely or not, accumulated a great amount of debt at places like for-profits and so I would guess that the impact is going to be different across different sectors of the broader higher ed. landscape. But it can be a good thing, you know. The notion, in general, that we're going to give up what could be useful investments for the sake of a little bit of short-run revenue and this is a little bit of short-run revenue. I find that troubling.