

# Inflation for U.S. higher education institutions rises 1.9% in fiscal 2020, lowest since 2016

WILTON, CT, December 28, 2020 – Data from the annual Commonfund Higher Education Price Index® (HEPI) show that inflation for U.S. colleges and universities rose 1.9 percent in fiscal year 2020, a decline from last fiscal year's 3.0<sup>1</sup> percent rate and the lowest reading since 1.5 percent in FY2016. The FY2020 inflation rate was also significantly below the average annual rate of 2.9 percent for the preceding three years. (Fiscal year 2020 covers the period from July 1, 2019, to June 30, 2020, and coincides with the budget year of most institutions of higher education.)

Year over year, costs in FY2020 rose in six of the eight components tracked by HEPI and declined in two. Faculty salaries, the most heavily weighted component of the index at 35 percent, rose 2.7 percent compared with 2.6 percent in FY2019. Clerical costs, the second-heaviest weighting at 18 percent, rose 3.2 percent, a lower rate than 3.5 percent in FY2019. Fringe benefits, 13 percent of the index, rose 2.9 percent, which was also below last fiscal year's 3.5 percent increase.

For the first time since FY2016 costs compared with the previous year declined in two categories: utilities, where costs were 15.7 percent lower, and supplies and materials, which declined 3.5 percent. Respectively the two components represent 7 percent and 6 percent of the index. Utility costs have been highly volatile in recent years, declining 13.2 percent in FY 2015 and 20.2 percent in FY2016 only to increase 14.5 percent in FY2017.

Costs for service employees showed the steepest year-over-year increase, at 4.0 percent, but this rate was unchanged compared with the previous fiscal year. Costs in this category have risen an average of 3.4 percent annually for the past five years, the highest among the eight components.

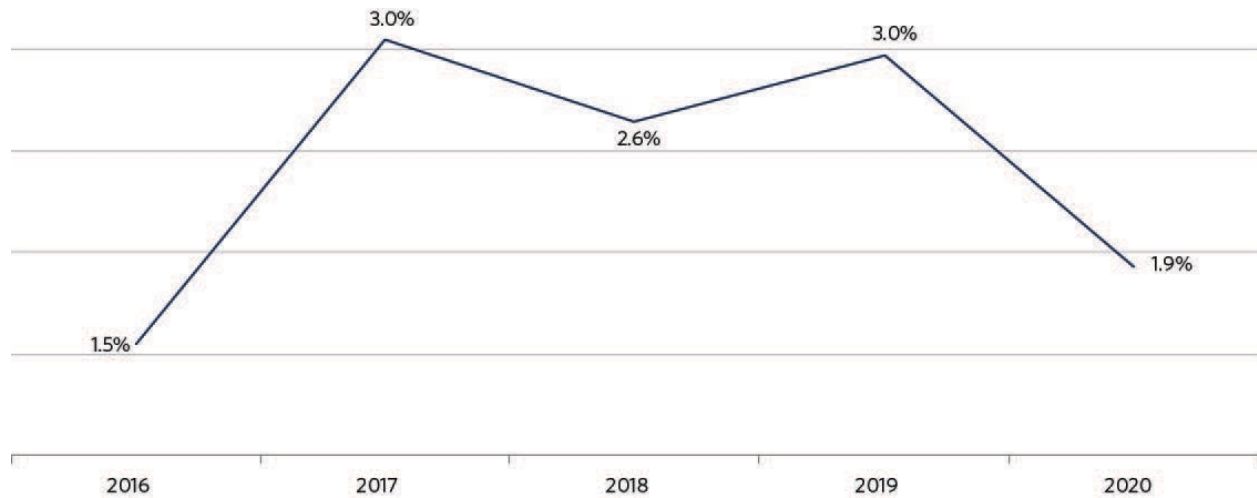
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<sup>1</sup> In 2015, the American Association of University Professors (AAUP) began using a new methodology to calculate salary and total compensation that was not directly comparable with the past. Further adjustments were made to the data for FY2020 and data for fiscal years 2015 through 2020 have now been restated to account for the change and make the data compatible with past reporting.

Other cost increases in FY2020 were 1.5 percent for administrative salaries and 2.8 percent for miscellaneous services. The former represents 11 percent of the index while the latter accounts for 2 percent.

Figure 1 tracks annual changes in HEPI over the last five fiscal years.

**FIGURE 1: THE HIGHER EDUCATION PRICE INDEX, FISCAL YEARS 2016 - 2020**



HEPI is an inflation index designed specifically for use by institutions of higher education. Compiled from data reported by government agencies and industry sources, HEPI measures the average relative level in the price of a fixed market basket of goods and services purchased by colleges and universities each year through current fund educational and general expenditures, excluding research. A more accurate indicator of cost changes for colleges and universities than the Consumer Price Index (CPI), HEPI is used primarily to project future budget increases required to preserve purchasing power. With compilations dating back to 1961, HEPI offers more than 50 continuous years of higher education inflation data. It is an essential tool enabling schools to determine increases in funding necessary to maintain both real purchasing power and investment. In 2005, Commonfund Institute assumed responsibility for the index and the proprietary model used to calculate HEPI's values from Research Associates of Washington, D.C.

Comparing HEPI and the CPI, while the former showed costs rising 1.9 percent in FY2020 costs rose in the latter by 1.6 percent, which, by historical standards, was a very narrow spread. For instance, the difference in FY2017 was 1.2 percentage points (3.0 percent versus 1.8 percent) and for FY2016 the gap was more than double (1.5 percent versus 0.7 percent). For the 2019 fiscal year, HEPI showed a 3.0 percent annual increase versus 2.1 percent for the CPI. To learn more about HEPI compared to CPI as an index to more accurately define inflation for colleges and universities and to sign up for HEPI quarterly updates, click [here](#). To access a copy of the Complete HEPI report, please visit [www.commonfund.org/hepi](http://www.commonfund.org/hepi).

### **HEPI for FY2020 versus a 5-year average**

Figure 2 compares reported rates of change for FY2020 against their historical five-year averages.

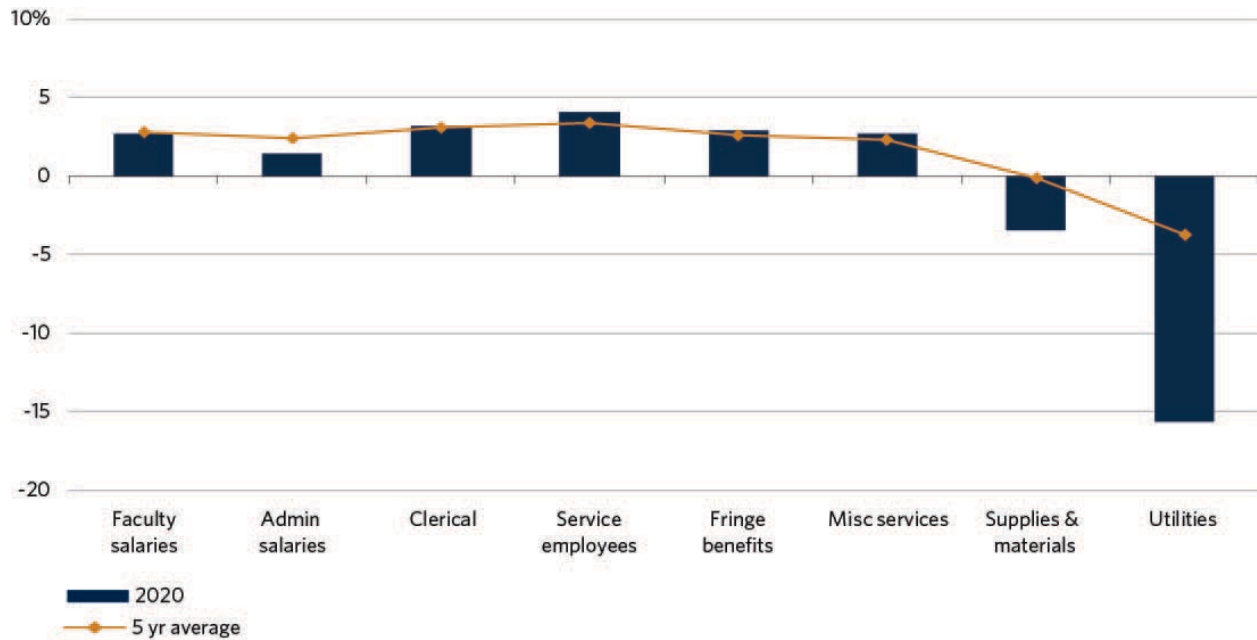
The principal observations follow:

- Of the eight cost factors, four were above their five-year average in FY2020 and four were below.
- Of the four most heavily-weighted HEPI components, cost increases in FY2020 were below their five-year average for two and higher for two. Costs were lower for faculty salaries (2.7 percent versus 2.8 percent) and administrative salaries (1.5 percent versus 2.4 percent); they were higher for clerical salaries (3.2 percent versus 3.1 percent) and fringe benefits (2.9 percent versus 2.6 percent).
- For FY2020, the greatest deviation from the five-year average was in the utilities component, which declined 15.7 percent compared with its five-year average of -3.7 percent.
- Other significant deviations occurred in supplies and materials, which declined in cost by 3.5 percent in FY2020 compared with a five-year average of -0.1 percent, and administrative salaries, where costs rose by 1.5 percent in FY2020 compared with a five-year average of 2.4 percent.
- The components showing the least deviation were faculty salaries, which rose by 2.7 percent versus a five-year average of 2.8 percent, and clerical salaries, where costs increased by 3.2 percent compared with a five-year average of 3.1 percent.

As noted earlier, utilities have been the most volatile component in the index for the past five years (actually, six years when FY2015 is included as costs declined at double-digit rates in three of the six). The only other category to show deflationary changes over the five-year period was supplies

and materials, which recorded price declines in FY2016 and FY2020 (and, like utilities, prices fell in FY2015; unlike utilities, price declines were in the mid- to lower single-digit range).

**FIGURE 2\*: ANNUAL PERCENTAGE CHANGES IN THE 8 HEPI COST FACTORS VS. 5-YEAR AVERAGE**



\* NOTE: Figure 2 above appears as Figure 3 in the full HEPI report.

### Costs regionally and by type of institution

The FY2020 HEPI, which was 1.9 percent on a national basis, ranged from a high of 3.6 percent in the West North Central region to a low of 0.6 percent in the Middle Atlantic region. No other region was above 3.0 percent, the closest being New England with an average cost increase of 2.9 percent. The second-lowest rate of inflation in FY2020 was found in East North Central Region, at 1.4 percent; a year ago, this region had the highest rate of inflation, at 4.5 percent.

Looking specifically at the faculty salary component, HEPI data show it rose 2.7 percent on a nationwide basis in FY2020. Regionally, increases in faculty salaries in FY2020 ranged from a high of 5.0 percent in the West South Central region to a low of 1.2 percent in the East South Central region. Three other regions were above the 3.0 percent level: Pacific at 3.4 percent, West North

Central at 3.2 percent and Mountain at 3.1 percent. All other regions were in a range of 2.0 percent to 2.9 percent.

When data are viewed by type of institution, faculty salaries rose at a slightly higher rate among private institutions than they did among their public counterparts—3.0 percent among the former versus 2.8 percent among the latter.

Looking more closely at private institutions, faculty salaries at doctorate-granting institutions increased 3.7 percent in FY2020; 0.6 percent at master's degree-granting institutions; and 1.7 percent at baccalaureate institutions. Turning to public institutions, faculty salaries among doctorate-granting institutions rose 3.1 percent in FY2020; 1.4 percent among master's degree-granting institutions; and 0.6 percent among two-year colleges. (Data for public two-year colleges and private baccalaureate institutions are not directly comparable for a number of reasons, notably the difference in the period of matriculation.) **This report shows some effects of the COVID-19 pandemic on costs, but the full impact won't be reflected until the 2021 report.**

#### Media Contacts

Tony Ialeggio  
Commonfund  
(203) 563-5121  
tony.ialeggio@commonfund.org

William Szczecinski  
Prosek Partners  
(646) 818-9029  
wszczecinski@prosek.com

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