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Inflation for U.S. higher education institutions

rises 2.8% in fiscal 2018

WILTON, CT, December 10, 2018 – Data from the annual Commonfund Higher Education Price Index (HEPI) show that inflation for U.S. colleges and universities rose 2.8 percent in fiscal year 2018, a decline from last fiscal year's 3.3¹ percent rate but higher than the average of 2.4 percent for the preceding five fiscal years. Of the past 10 years, FY2018 HEPI was the third highest rate of inflation, trailing only FY2017 and FY2014. (Fiscal year 2018 covers the period from July 1, 2017, to June 30, 2018, and coincides with the budget year of most institutions of higher education.)

FY2018 costs rose in all eight components tracked by HEPI compared with last year when costs rose in seven of the eight. Differentiating this year from last, in FY2018 no single cost rose as much as 2017's 14.5 percent increase in utility costs and 4.1 percent in fringe benefits; instead, cost increases this year were in a tighter range of 1.7 percent (for utilities) to 3.4 percent (for service employee costs).

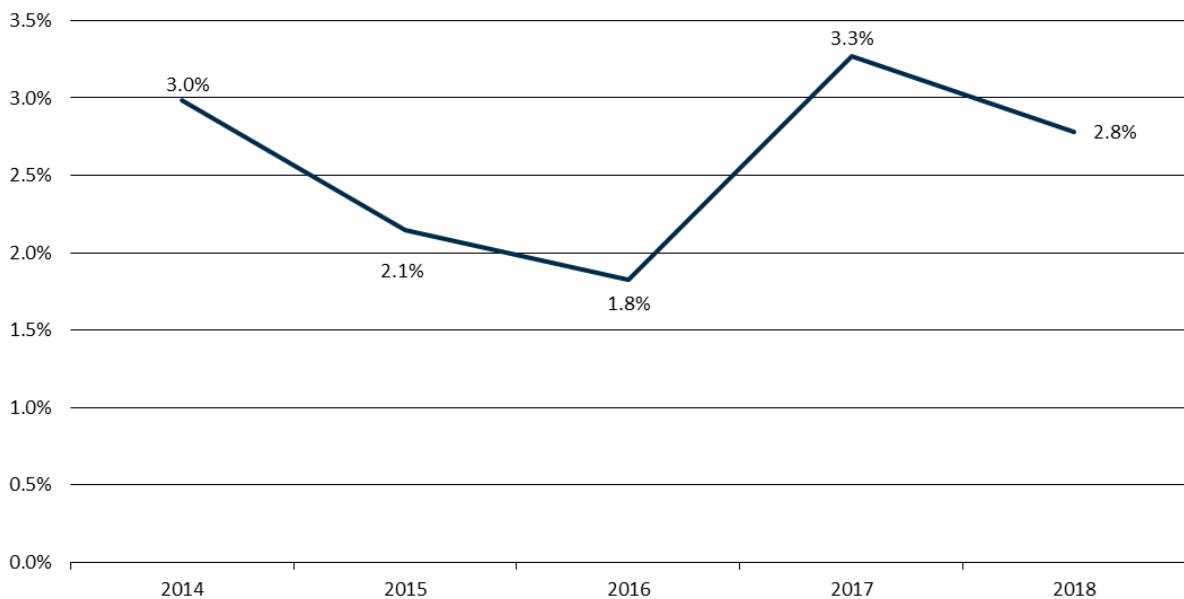
Faculty salaries—the most heavily-weighted HEPI component at 35 percent of the index—increased by 3.2 percent in FY2018. The second-largest component—clerical costs, at 18 percent of the index—rose 2.9 percent. Fringe benefits, accounting for 13 percent of the index, rose 2.3 percent, while administrative salaries, representing 11 percent of the index increased 2.2 percent. Service employee costs, at 8 percent of the index, increased 3.4 percent, as noted. The other three

¹ In 2015, the American Association of University Professors (AAUP) began using a new methodology that was not directly comparable with the past; therefore, data on faculty salaries and fringe benefits, as well as information by region and type of institution, was excluded from the 2016 and 2017 HEPI reports. The conversion has been completed and the 2018 report once again includes these data points. We have used what we believe are reasonable estimates for changes in these two components. Additionally, due to the modification mentioned above, last year's FY2017 HEPI number has been restated to 3.3 percent.

components of the index are: supplies & materials, 2.8 percent; miscellaneous services, 2.4 percent; and utilities, 1.7 percent.²

FY2017's 3.3 percent was the highest rate of inflation in recent years and the highest since 5.0 percent in FY2008. FY2018's 2.8 percent was, nevertheless, considerably higher than the 1.8 percent reported for FY2016 and FY2015's 2.1 percent. Looking at specific components of the index, utility costs have been highly volatile in recent years, as they declined 20.2 percent in FY2016 and 13.1 percent in FY2015 before rising 14.5 percent in FY2017. Service employee costs, the largest increase this year, was the third highest rate of increase last year. The increase in costs for supplies and materials was only the second time in the past six years that this component has risen. Figure 1 tracks annual changes in HEPI over the last five fiscal years.

FIGURE 1: THE HIGHER EDUCATION PRICE INDEX, FISCAL YEARS 2014 – 2018



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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. To access a copy of the complete report, please click on this link www.commonfund.org

HEPI for FY2018 versus a 5-year average

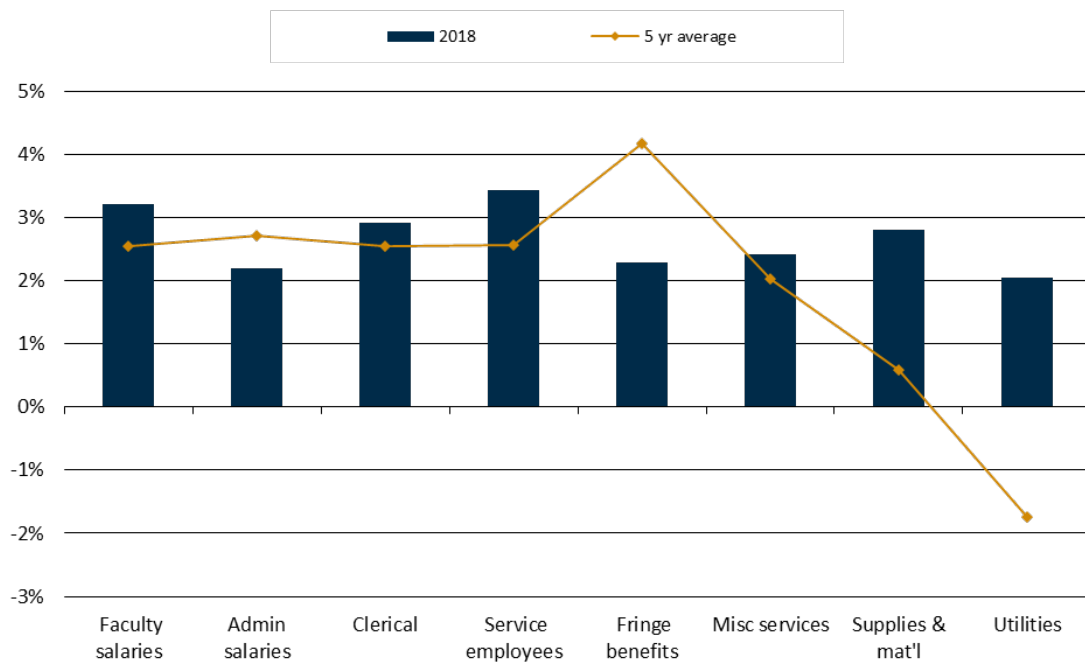
Figure 2 compares reported rates of change for FY2018 against their historical five-year averages.

The principal observations follow:

- Of the eight cost factors, six rose in FY2018 compared with their five-year average. Only administrative salaries and fringe benefits were below their five-year average.
- For FY2018, the greatest deviation from the five-year average was in the category of utilities, which rose to 2.0 percent in FY2018 versus a five-year average of -1.8 percent.
- The second-highest deviation occurred in supplies and materials, which showed a 2.8 percent inflation rate for FY2018 versus a five-year average of 0.6 percent.
- The third-highest deviation was found in fringe benefits, which rose 2.3 percent in FY2018 compared with a five-year average of 4.2 percent. (We again caution that fringe benefits are not directly comparable owing to the footnote on page 2 referencing a change in calculation methodology for this component.)

The components showing the least deviation were clerical salaries, which declined 2.2 percent in FY2018 versus a five-year average of 2.6 percent, and miscellaneous services, which rose to 2.4 percent in FY2018 compared with a 2.0 percent five-year average.

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



Differences regionally and by type of institution

The FY2018 HEPI, which was 2.8 percent on a national basis, ranged from a high of 3.7 percent in the West South Central region to a low of 1.8 percent in the Mountain region. Two other regions were at 3.0 percent or higher: Pacific at 3.5 percent and West North Central at 3.0 percent. All other regions were in a range of 2.2 percent to 2.8 percent.

By type of institution, in FY2018 HEPI showed an increase of 2.6 percent for public institutions and 2.9 percent for private institutions. HEPI was higher for private doctoral institutions than for their public counterparts—3.0 percent versus 2.5 percent—but higher for public master’s degree-granting institutions, at 3.0 percent, compared to private institutions, at 2.1 percent. Public two-year colleges saw the index increase 2.4 percent while private baccalaureate institutions experienced a 2.8 percent rate of increase. (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.)

Faculty salaries—the most heavily weighted component of HEPI—saw an increase of 3.3 percent at public institutions and 3.4 percent at private institutions. Among public institutions, faculty salaries rose the most, by 4.0 percent, at two-year colleges. Faculty salaries at public doctoral institutions and master’s institutions both saw an increase of 2.4 percent. Faculty salaries at private doctoral institutions rose at a rate of 3.1 percent; salaries at private master’s institutions rose 2.2 percent; and baccalaureate institutions reported a 1.3 percent increase.

About Commonfund

Commonfund was founded in 1971 as an independent asset management firm focused on not-for-profit institutions. Today, we are one of North America’s leading investment firms, managing \$25 billion in assets for some 1,400 institutional clients, including educational endowments, foundations and philanthropic organizations, hospitals and healthcare organizations and pension plans. Our primary business is investment management, and we are active in all sectors of the global capital markets, both public and private.

About Commonfund Institute

Commonfund Institute houses the education and research activities of Commonfund and provides the entire community of long-term investors with investment information and professional development programs. Commonfund Institute is dedicated to the advancement of investment knowledge and the promotion of best practices in financial management. It provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and governance; proprietary and third-party research such as the Commonfund Benchmark Studies®; publications including the Commonfund Higher Education Price Index® (HEPI); and events such as the annual Commonfund Forum and Investment Stewardship Academy.

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