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February 29, 2008

The Honorable Max Baucus
The Honorable Charles Grassley
U.S. Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Senators Baucus and Grassley,

Williams College welcomes this opportunity to describe to you, the Committee, and the public our policies regarding our endowment and the setting of our total fee and financial aid.

These policies result from long-term detailed analysis by Williams administrators and faculty and from regular, extensive discussions on campus and with our Board of Trustees.

Each of the Board's quarterly meetings begins with a review of the College's financial performance in the current year and in our rolling five-year financial plan, which is designed to make clear the future effects of the tradeoffs incumbent in our financial decisions. The Board's Budget and Financial Planning Committee meets quarterly for an even closer look at current and projected budgets. The Board's Audit Committee also plays an oversight role. Financial aid policies and practices are on the agenda of virtually all of the frequent meetings of the Board's Admission and Financial Aid Committee. The Board's Investment Committee meets quarterly to review current positions in our portfolio, details of performance, and new investment opportunities.

A fuller description of our financial practices and the research that informs them is available in the chapter on "Financial Resources" in our 2007 "Self Study for Accreditation." (http://www.williams.edu/admin/president/selfstudy/ss_financial_res.php) It shows the careful attention the College gives to its stewardship of the financial resources that undergird our educational mission.

Williams seeks to provide the finest possible liberal arts education that is accessible to students of all economic backgrounds. We are fortunate to be able to admit students without regard to their ability to pay and to promise each admitted student the financial aid needed to attend for four years. The College can maintain this high quality and accessibility because of the financial resources available to us from fee payments,

endowment earnings, and gifts for current operations. All three are important: the portion of College operating revenue that comes from fee payments has steadily decreased in recent years to where it now represents less than half. Without endowment or gift income we would have to double our fee revenue, or substantially reduce the quantity or quality of our offerings to students.

Financial Aid

Recent changes in the College's financial aid have been dramatic. The accompanying data show that in the past ten years we have significantly expanded the percentage and the income range of our students on Williams-based aid, and lowered for this group the median net cost (total fee minus grant aid) by 18% in nominal terms, which is 37% in real, inflation-adjusted, terms.

The percentage of all students on aid has increased in that time from around 40% to 47% (and is greater than 50% in the most recent entering class), while the proportion of our aided students with grants that cover 75% or more of the total fee has increased five-fold. While we have increased our percentage of low-income students, the family income at the 95th percentile of our aided group has risen to \$178,600. There is no income cutoff for aid since assets and number of children in college, which vary from family to family, are also taken into account. We aid some families whose incomes place well into the top 5% nationally. Meanwhile, parents of U.S. median income, with typical assets, could have expected to pay at Williams this year about \$9,000. That is if they had just one child in college; it would be \$5,400 if there were two.

In addition, beginning with the next academic year we will expect no loans of students. We had previously lowered our loan expectations twice in recent years and eliminated them for the lowest-income families. Now we will replace all loans with increased grants, a step that will lower the net cost for aided students even further.

We review our financial aid policies almost continually. We do this in light of the College's changing financial situation, our goal of further diversifying the student body, and our competition with peer colleges and universities for the most talented students, since the more academically able that our students are the more they contribute to each other's education. Barring a reversal in the College's financial situation, we anticipate, after our most recent round of analysis, to expand our financial aid still further.

All our financial aid is based on need. In determining that need we use as a guideline the institutional methodology developed by the College Board.

Recruiting and Outreach

Recruiting an economically diverse student body has long been a priority at Williams. As a result, we describe our financial aid policies in our admission and financial aid publications and on our financial aid Web site, which has included for the last four years a calculator that families can use to estimate their potential parental contribution at Williams.

Spurred in significant part by research conducted by Williams faculty members that made clear the small proportion of low-income families then represented at Williams and similar schools, we have made recruiting such students an even higher priority.

Since 2004, this effort has included:

1) Purchasing some 20,000 names of potential low-income prospective students from the Student Search Service of the College Board. A special College Board program called Access Success allows us to use geo-demographic data to identify students from low-income neighborhoods. We send them via regular mail and e-mail our financial aid brochures and other publications highlighting financial aid opportunities.

2) Partnering with Questbridge, a non-profit program that “links bright, motivated low-income students with educational and scholarship opportunities at some of the nation’s most selective colleges.” We identified through Questbridge nearly 7% of students in our three most recent entering classes.

3) Bringing to campus each summer at the College’s expense some 25 guidance counselors from under-resourced high schools and from outreach programs (such as One Voice, Summer Search, Link Unlimited, etc.) from throughout the country. These counselors learn about our academic programs and our financial aid opportunities for the low-income students with whom they work.

4) Targeting low-income schools and outreach programs throughout the country in addition to traditional “feeder schools” for admission officers’ travel.

5) Bringing to campus each fall at the College’s expense about 200 low-income prospective students from across the country for one of two “Window on Williams” weekends.

6) Hosting each April at the College’s expense low-income admitted students and their parents for our Previews program.

These new and ongoing efforts focused on recruiting high-ability, low-income students cost each year about \$390,000. We also estimate that our admission officers devote 30% of their time to low-income recruitment. Adding that proportion of their compensation brings the figure to \$653,000.

In our institutional research, we define low family income as the lowest two quintiles of the U.S. income distribution, roughly \$47,000 and below. In admitting students, however, admission officers identify low-income families as best they can, given the constraint presented by our need-blind policy. They do not know a student’s ability to pay before making an admission decision. To provide an advantage to low-income students in the selection process, admission officers use parental education and occupations as proxies for income.

Total Fee

Setting the total, or comprehensive, fee (which includes tuition, room, board, and other charges) affects so significantly our families and the quality of our educational offerings that we devote considerable time and energy to that process, in tandem with the decision of how much to spend from endowment. In doing so, we work hard to judge the right balance of the educational needs and opportunities of current and future students, along with their ability to pay.

Each year the Provost's Office constructs models of various combinations of total fee level and endowment spending, based on an assumption about gift income.

Based on that work, the Provost consults with a staff-faculty Tuition Advisory Group before making a recommendation to the President's Staff, which then recommends a total fee for the deliberation and vote of the full Board of Trustees. The process does not include formal comment by parents or the public.

You asked about average price. Over the past ten years, ours is virtually unchanged in real terms—up .5%. But a fuller description of recent pricing at Williams would be as follows:

The College's total fee represents roughly half of our annual operating spending per student, so even total-fee payers receive in subsidy an amount equal to what they pay. In addition, the total fee is paid by families in roughly the top 5% of U.S. incomes. Families from the remaining roughly 95%, who generally qualify for Williams-based aid, have over the last ten years seen a reduction in their median net price of 37% in real terms. This will go down further now that we've eliminated loans, and further still with any additional changes in our financial aid policies.

Endowment

The high-quality, highly subsidized, and widely accessible education that Williams offers depends, in increasing part, on spending from endowment.

The purpose of the endowment is to help meet the current and future needs of the College and to provide enough liquidity to do so on a timely basis. Our investment strategy aims for an average annual return of 5% above the higher education price index—a level that helps provide substantial subsidies to current students while protecting the value of the endowment for future generations of students.

For many years the endowment had been overseen and managed by our Board's Investment Committee, a group of trustees and alumni with extensive financial experience and expertise who volunteered considerable time to the effort. Although the Committee's performance had been remarkable, a consensus emerged over recent years that we would benefit from the creation of a more formal Investment Office. We put one in place beginning in the Fall of 2006.

Our College Laws describe the ongoing role of the Investment Committee as follows:

The Investment Committee shall periodically review and make recommendations to the Trustees with respect to the general policies governing the investment of the funds of the College. The Investment Committee at all times shall have supervision over the investment and reinvestment of the funds of the College and shall have the authority to approve or to disapprove investments, and the retention of investment managers (including managers of separate accounts and collective investment funds) and investment consultants, recommended to it by the Chief Investment Officer. The Investment Committee from time to time shall submit to the Trustees such matters of general financial policy as the Investment Committee may desire to have considered. The Investment Committee is authorized to appoint subcommittees, which will serve in an advisory capacity to the Investment Committee and the Chief Investment Officer.

The Committee sets the endowment's strategic direction, investment policy, and asset allocation. It reviews asset allocation annually and conducts a more formal, in-depth review every three to five years. We benefit also from the work of Advisory Committees on investment strategies for marketable, non-marketable, and real assets.

Some members of the Investment Office are eligible for bonuses based on the return on our investments, though the office is so new that we have not completed the first year of returns on which bonuses would be computed. So, in the past ten years no such bonuses have been paid. No one's compensation is affected by the endowment's size or growth. In other words, no one makes more money depending on the size or amount of gifts to endowment or on the rate of the College's endowment spending.

The bulk of endowment spending is restricted. Donors have restricted the uses of 85% of it, including 25.8% for undergraduate financial aid. The five largest categories of restriction are financial aid, professorships, other faculty salaries, other instructional expenses, and library and museum. The Board has put reversible restrictions on another 11%.

As mentioned earlier, we decide each year on the total fee and the rate of endowment spending after careful analysis of the educational needs and opportunities of current and future students and their ability to pay.

As a guideline, we aim to spend each year on operating expenses about 5% of the endowment's beginning-of-year market value. When we add in spending from the endowment on capital expenses, the annual average rate over the past ten years is 6%.

This guideline is based on a number of studies (including the 1970 Ford Foundation Report on Endowments), analyses of several market periods (such as the 1970s and 1980s), and modeling of spending patterns and plans that include various possible investment returns and allows for randomness in the variables. As a result, we believe that this guideline most effectively balances spending now and spending later.

We also believe that our students are better served without a mandated minimum annual spending rate. A variety of factors could make spending above a predetermined minimum unwise in a given year. One of them is an unpredicted and unusual return on investment. It seems unwise to spend newly available resources without a thoughtful plan on how to do that in the most educationally beneficial way. Williams experienced this at the turn of the decade. The late 1990s brought unprecedented investment returns. Rather than rush to spend those new funds, the College chose for two years (which included a change in its presidency) to spend below the guideline until a strategic planning process could identify the best educational use of those funds. In several years since, we have spent above our average of 6%.

Williams provides a public good primarily through the contributions our graduates make in their communities and professions. There are at least two additional ways, however, in which our endowment supports operations that benefit the public. One is the research and artistic expression of our faculty, which help to expand human knowledge and understanding. Another is the College's increasing involvement in our local community. Over the past ten years, our financial commitments (to schools, government, health providers, arts organizations, etc.) have included one-time payments of \$5 million and annual payments approaching \$500,000.

We hope that this letter and its appended data will help advance public understanding of the College's finances. Please let us know if we can clarify any of it for the Committee.

We take seriously our role as stewards of the funds given us to provide the finest possible liberal arts education that is accessible to students of all economic backgrounds. We devote considerable administrative, faculty, and trustee effort to making these complicated financial decisions in ways that support our mission and that honor the enormous trust invested in us by those who provide those funds.

Sincerely,

A handwritten signature in cursive script, appearing to read "Morton Owen Schapiro".

Morton Owen Schapiro

Appendix

Full-time Fall Headcount (in residence)

Fall	Undergraduate	Graduate
1998	2,034	45
1999	2,074	49
2000	1,989	46
2001	1,959	51
2002	1,941	48
2003	1,995	57
2004	1,953	59
2005	2,008	53
2006	2,000	46
2007	1,964	49

Total Fee and Financial Aid Statistics

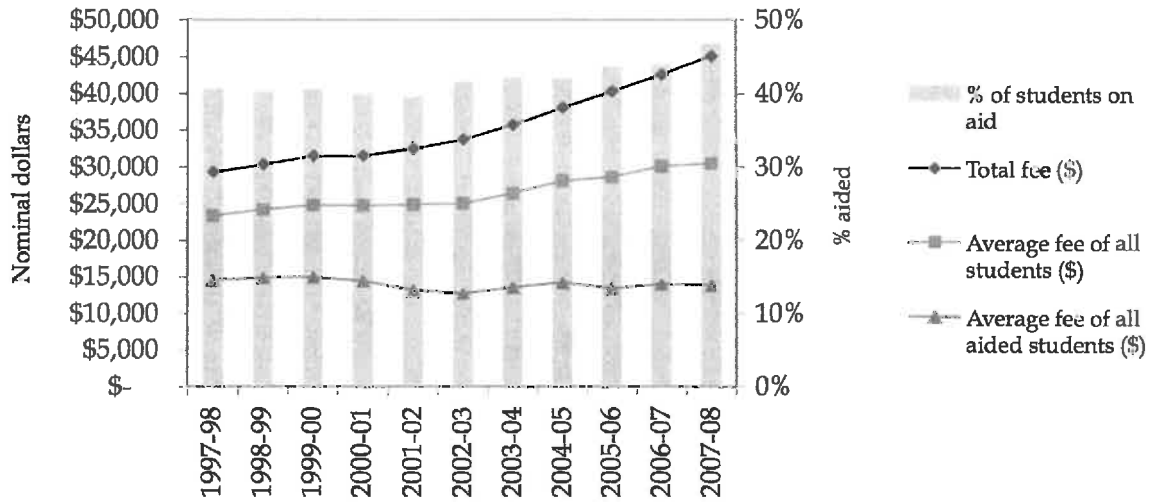
Nominal dollars.

	Undergraduate enrollment (inc study away)	# of aided students	% Aided	Total fee (includes full room & board)	Average grant per grant-aided student	Mean fee		Median fee	
						All students	All aided students	All students	All aided students
1997-98	2099	853	41%	\$ 29,350	\$ 13,841	\$ 23,296	\$ 14,453	\$ 29,350	\$ 13,835
1998-99	2145	863	40%	\$ 30,380	\$ 14,254	\$ 24,117	\$ 14,812	\$ 30,380	\$ 13,890
1999-00	2172	883	41%	\$ 31,520	\$ 15,355	\$ 24,757	\$ 14,884	\$ 31,520	\$ 13,885
2000-01	2126	850	40%	\$ 31,520	\$ 15,616	\$ 24,676	\$ 14,401	\$ 31,520	\$ 13,680
2001-02	2102	832	40%	\$ 32,470	\$ 17,979	\$ 24,820	\$ 13,143	\$ 32,470	\$ 12,865
2002-03	2104	877	42%	\$ 33,750	\$ 19,342	\$ 24,964	\$ 12,671	\$ 33,750	\$ 12,150
2003-04	2102	888	42%	\$ 35,750	\$ 20,825	\$ 26,367	\$ 13,539	\$ 35,750	\$ 12,719
2004-05	2101	884	42%	\$ 38,100	\$ 22,201	\$ 28,035	\$ 14,179	\$ 38,100	\$ 13,203
2005-06	2120	925	44%	\$ 40,310	\$ 24,688	\$ 28,562	\$ 13,385	\$ 40,310	\$ 12,200
2006-07	2124	935	44%	\$ 42,650	\$ 26,743	\$ 30,024	\$ 13,969	\$ 42,650	\$ 13,000
2007-08	2112	990	47%	\$ 45,140	\$ 29,127	\$ 30,443	\$ 13,787	\$ 45,140	\$ 11,413

Note: all students are assumed to be on full board, even though this is not the case.

Note: the mean and median fees for "all aided students" take into account Federal and other grants in addition to Williams grants.

Total fee, average fee, and % of aided students



Total Fee and Financial Aid Statistics

Inflation-adjusted constant 1997 dollars.

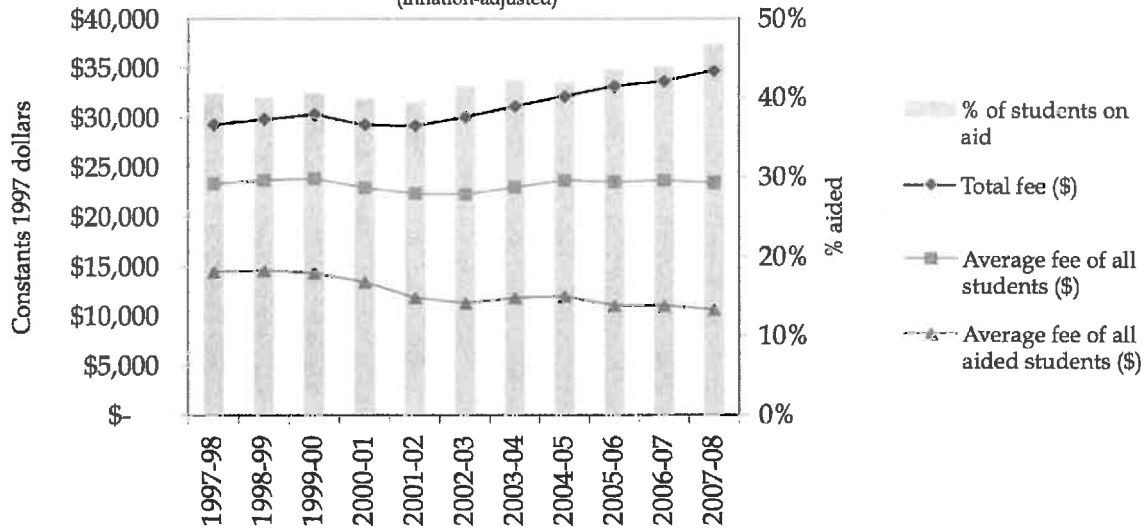
	Undergraduate enrollment (inc. study away)	# of aided students	% Aided	Total fee (includes full room & board)	Average grant per grant-aided student	Mean fee		Median fee	
						All students	All aided students	All students	All aided students
1997-98	2099	853	41%	\$ 29,350	\$ 13,841	\$ 23,296	\$ 14,453	\$ 29,350	\$ 13,835
1998-99	2145	863	40%	\$ 29,877	\$ 14,018	\$ 23,717	\$ 14,567	\$ 29,877	\$ 13,660
1999-00	2172	883	41%	\$ 30,401	\$ 14,810	\$ 23,878	\$ 14,356	\$ 30,401	\$ 13,392
2000-01	2126	850	40%	\$ 29,308	\$ 14,520	\$ 22,944	\$ 13,390	\$ 29,308	\$ 12,720
2001-02	2102	832	40%	\$ 29,241	\$ 16,191	\$ 22,352	\$ 11,836	\$ 29,241	\$ 11,586
2002-03	2104	877	42%	\$ 30,073	\$ 17,235	\$ 22,244	\$ 11,291	\$ 30,073	\$ 10,826
2003-04	2102	888	42%	\$ 31,196	\$ 18,172	\$ 23,008	\$ 11,814	\$ 31,196	\$ 11,099
2004-05	2101	884	42%	\$ 32,195	\$ 18,760	\$ 23,690	\$ 11,982	\$ 32,195	\$ 11,157
2005-06	2120	925	44%	\$ 33,222	\$ 20,347	\$ 23,540	\$ 11,031	\$ 33,222	\$ 10,055
2006-07	2124	935	44%	\$ 33,695	\$ 21,128	\$ 23,721	\$ 11,036	\$ 33,695	\$ 10,271
2007-08	2112	950	47%	\$ 34,729	\$ 22,410	\$ 23,422	\$ 10,607	\$ 34,729	\$ 8,781

Note: all students are assumed to be on full board, even though this is not the case.

Note: the mean and median fees for "all aided students" take into account Federal and other grants in addition to Williams grants.

Total fee, average fee and % of aided students

(inflation-adjusted)

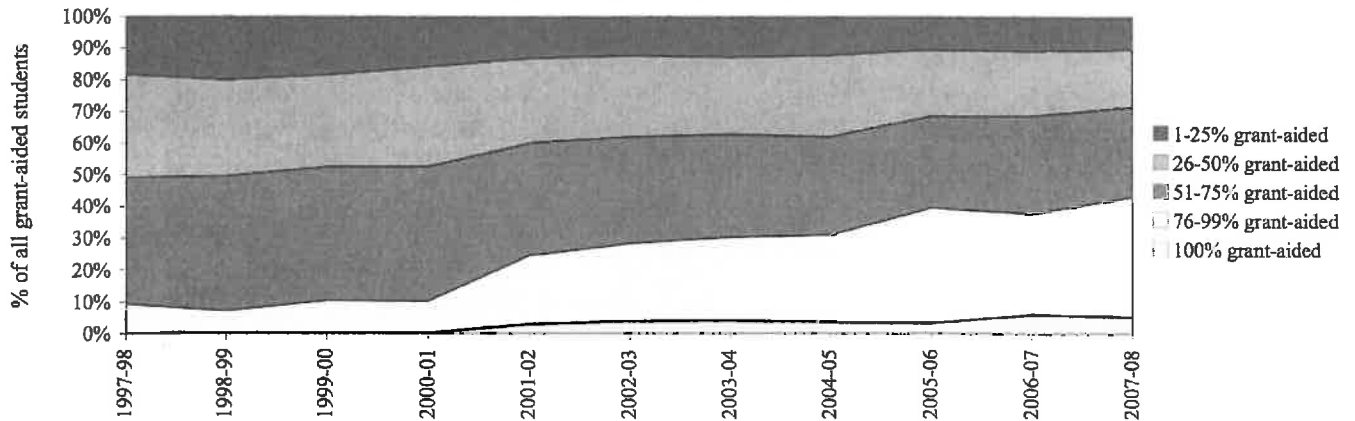


The number and proportion of total aid packages in the highest-need categories have increased significantly. The proportion of aided students receiving grants >75% of the total fee has increased five-fold in ten years.

Students receiving this amount (or more) in grants					
<i>Count</i>					
	100% off total fee	>75% off fee	>50% off fee	>25% off fee	any grant
1997-98	2	74	397	658	806
1998-99	1	59	409	659	823
1999-00	2	87	441	683	836
2000-01	1	84	432	691	821
2001-02	22	194	472	683	786
2002-03	32	240	524	740	844
2003-04	33	257	532	738	846
2004-05	31	267	534	755	860
2005-06	32	358	621	812	906
2006-07	56	348	631	818	918
2007-08	53	421	696	873	973

Students receiving this amount (or more) in grants					
<i>Proportion</i>					
	100% off total fee	>75% off fee	>50% off fee	>25% off fee	any grant
1997-98	0%	4%	19%	31%	38%
1998-99	0%	3%	19%	31%	38%
1999-00	0%	4%	20%	31%	38%
2000-01	0%	4%	20%	33%	39%
2001-02	1%	9%	22%	32%	37%
2002-03	2%	11%	25%	35%	40%
2003-04	2%	12%	25%	35%	40%
2004-05	1%	13%	25%	36%	41%
2005-06	2%	17%	29%	38%	43%
2006-07	3%	16%	30%	39%	43%
2007-08	3%	20%	33%	41%	46%

The proportion of grants in the categories of highest need has increased significantly in the past ten years

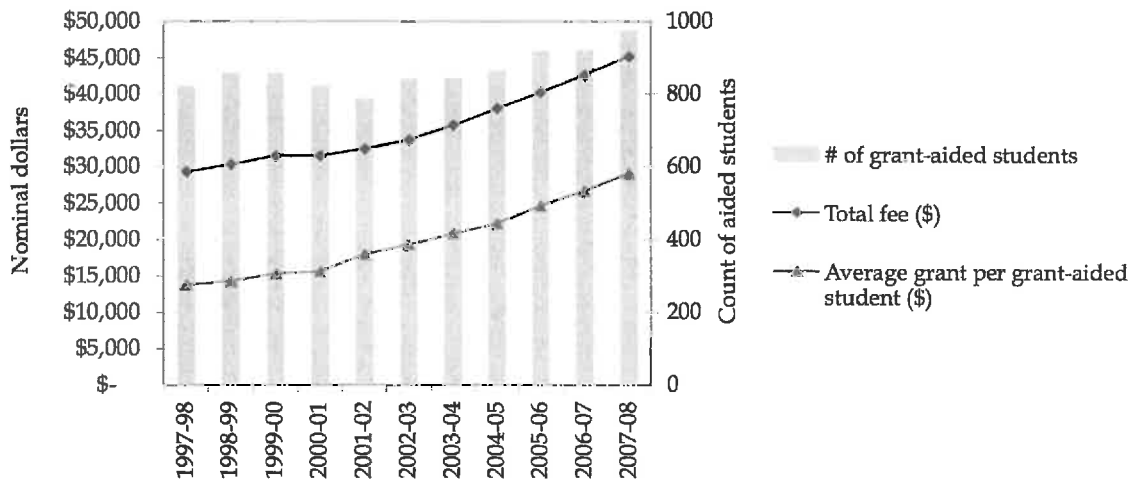


Aid Expenditures, Total and per Student

	Institutional Grants			Total Aid Expenditures (inc. grants)		
	\$ amount of grants awarded	# of grant-aided students	Average grant per grant-aided student (\$)	\$ amount of finaid expenditures (all types)	# of aided students	Average finaid expenditure per aided student
1997-98	\$ 11,390,763	823	\$ 13,841	\$ 12,933,106	840	\$ 15,397
1998-99	\$ 12,244,510	859	\$ 14,254	\$ 13,955,732	892	\$ 15,645
1999-00	\$ 13,189,686	859	\$ 15,355	\$ 15,113,642	880	\$ 17,175
2000-01	\$ 12,852,061	823	\$ 15,616	\$ 14,771,721	846	\$ 17,461
2001-02	\$ 14,185,502	789	\$ 17,979	\$ 16,133,117	804	\$ 20,066
2002-03	\$ 16,324,809	844	\$ 19,342	\$ 18,483,206	860	\$ 21,492
2003-04	\$ 17,638,671	847	\$ 20,825	\$ 19,732,350	864	\$ 22,838
2004-05	\$ 19,203,998	865	\$ 22,201	\$ 21,330,634	875	\$ 24,378
2005-06	\$ 22,738,059	921	\$ 24,688	\$ 25,073,284	929	\$ 26,990
2006-07	\$ 24,656,872	922	\$ 26,743	\$ 26,989,683	925	\$ 29,178
2007-08	\$ 28,398,913	975	\$ 29,127	\$ 31,132,499	982	\$ 31,703

* Counts are from a snapshot at a point in time, rather than a yearly total, and therefore differ, though insignificantly, from elsewhere in this report.

Change in Average Grant, Total Fee, and Number of Aided Students



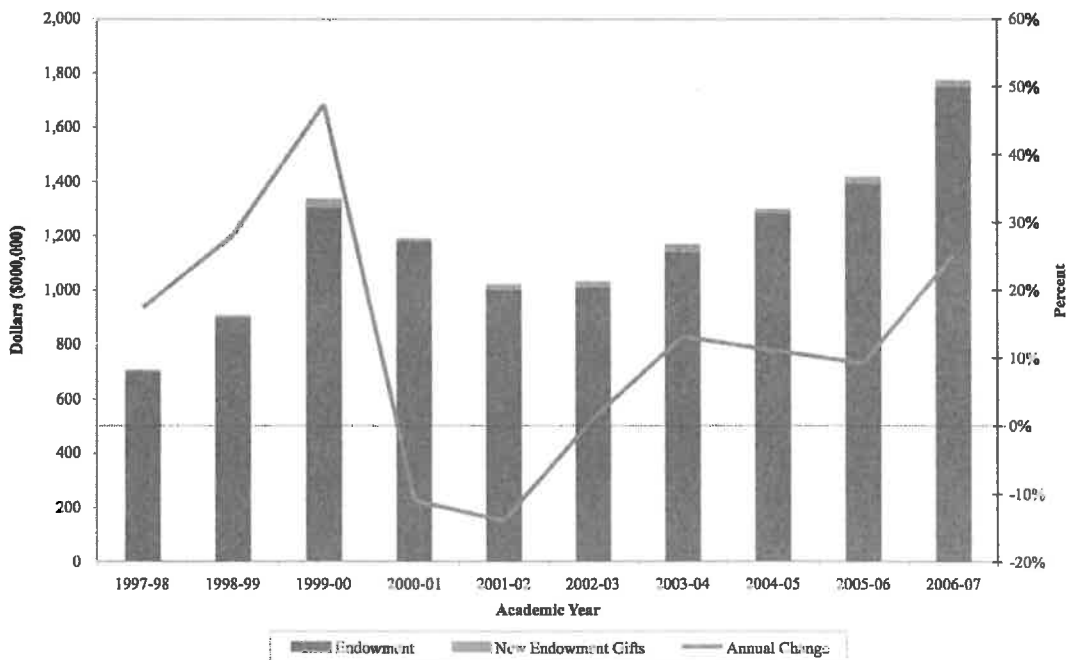
Parental Income of Aided Students

Award Year	Count	Mean	Median	5th Percentile	95th Percentile
1998	853	\$ 65,449	\$ 63,791	\$ 7,152	\$ 125,969
1999	863	\$ 68,527	\$ 65,300	\$ 8,694	\$ 132,491
2000	883	\$ 68,250	\$ 66,457	\$ 5,908	\$ 133,163
2001	850	\$ 69,844	\$ 67,908	\$ 6,324	\$ 138,828
2002	832	\$ 73,979	\$ 73,072	\$ 5,856	\$ 145,739
2003	877	\$ 72,472	\$ 69,809	\$ 5,000	\$ 154,887
2004	888	\$ 76,011	\$ 73,020	\$ 4,983	\$ 163,394
2005	884	\$ 77,107	\$ 75,182	\$ 5,180	\$ 165,689
2006	925	\$ 77,704	\$ 72,646	\$ 6,253	\$ 163,308
2007	935	\$ 77,106	\$ 70,424	\$ 7,196	\$ 166,105
2008	990	\$ 79,168	\$ 72,293	\$ 9,190	\$ 178,612

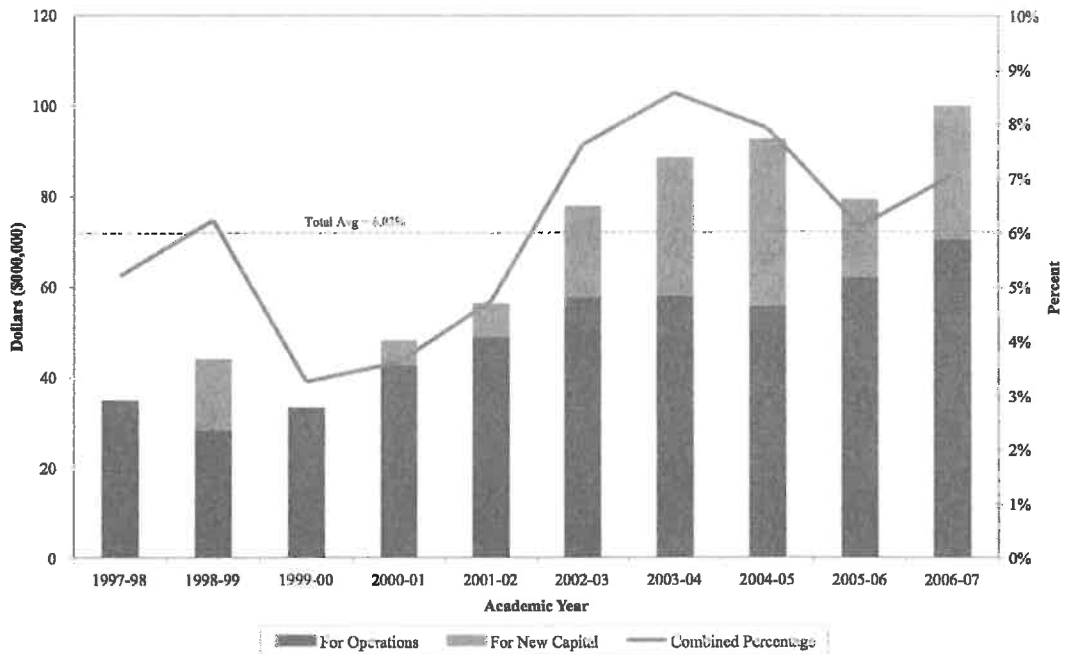
The term "endowment" can mean more than one thing. We define it as gifts from which, by donor condition, we can spend only investment earnings. As of 6/30/07 this was \$1.77 billion. There also exist "funds functioning as endowment" or "quasi-endowment." These are funds, typically unrestricted bequests, that the Board of Trustees has decided to invest with the endowment (\$257 million as of 6/30/07). The "investment pool" includes endowment, quasi-endowment, and other funds—mostly annuity funds, which are gifts that support the donor and beneficiaries during their lifetime, after which the earnings become available for College use. This is the figure reported by the National Association of College and University Business Officers (\$1.89 billion as of 6/30/07). In addition, some donors have established trusts that are managed outside the College but the earnings of which are designated for College use (\$15.9 million as of 6/30/07).

For this discussion we've combined endowment and quasi-endowment since they represent College-controlled funds, the earnings of which are currently available to us.

Endowment Change



Endowment Spending



Endowment Investment Returns

Fiscal Year	Total Investment Return (%)
1997-98	18.3
1998-99	28.9
1999-00	51.2
2000-01	-8.4
2001-02	-9.1
2002-03	5.2
2003-04	17.8
2004-05	12.4
2005-06	12.8
2006-07	24.0

Endowment Allocation

Asset Class	Long-Term Policy Target
U.S. Equity	27.0%
Developed International Equity	18.0%
Emerging Markets Equity	5.0%
Absolute Return	10.0%
Venture Capital	6.0%
Private Equity	9.0%
Real Assets	6.0%
Real Estate	6.0%
Fixed Income	12.0%
Cash	1.0%
Total	100%

As of June 30, 2007, approximately 28% the Investment Pool was invested outside of the United States.

Prior to forming our Investment Office, the internal costs of overseeing the management of the endowment were spread through various parts of the institution. The Investment Office opened two months into the 2006-2007 fiscal year and added personnel at various points in that year.

We retain outside companies to manage our investments. These managers operate under formal agreements that outline their responsibilities, performance expectations, administrative and reporting guidelines, and fees. Most fees are "indirect," that means they are not billed to the College but are taken out of earnings.

Since management fees reduce the amount of money available to support the College's mission, the Investment Office monitors the value received in return for fees. The Investment Committee approves an annual budget for the investment program. The Chief Investment Officer and others report regularly to the committee on the performance of that budget and use consultant data to review overall costs. In addition, the process we use to select managers includes an assessment of fees. All investments, including fees, are reviewed by the Investment Office, the Investment Committee, the applicable Advisory Committee, and outside counsel.

We also measure the cost of our new Investment Office against those of colleges and universities with endowments of similar size.

Cost of Endowment Oversight

(internal costs plus direct billable fees from outside managers)

<u>Year</u>	<u>Total (\$)</u>
2007	7,071,734
2006	7,045,291
2005	8,519,806
2004	2,786,106
2003	4,645,736
2002	5,834,442
2001	4,228,847
2000	2,834,008
1999	4,246,878
1998	1,973,331