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**From:** President Peter Salovey and Provost Ben Polak <provost@yale.edu>  
**Sent:** Tuesday, November 18, 2014 4:15 PM  
**To:** Faculty and Staff  
**Subject:** Annual Budget Update



November 18, 2014

**To:** Faculty and Staff of Yale University  
**From:** President Peter Salovey and Provost Ben Polak  
**Re:** Annual Budget Update

A year ago we wrote to you at the start of the last budget planning cycle. Today we continue that practice for the coming year.

There is a good deal of positive news to report. In the first year of our effort to stabilize the budget, we not only met but slightly surpassed our goal of a 3 percent cost savings in central administrative areas. This puts us in a strong position to meet the three-year target of 5 percent. And, although last year's budget still had a slight deficit in the central campus, healthy clinical revenue at the medical school led to a small overall surplus, university wide, of about 0.5 percent of our operating budget.

After last year's 20.2 percent return, Yale's endowment is at a record high in nominal terms, finally surpassing its 2009 level. Of course, in the meantime, costs have risen. Adjusting for inflation, the endowment is 8 percent below its peak, and that translates into approximately \$110 million less in annual revenue available to spend each year. Given this, the fact we have a budget surplus is a tribute to hard work university wide.

Although most of the news is good, we still have challenges to address. Health care costs are rising in excess of inflation. This brings special burdens to our budget due to Yale's generous health benefits. This is not a bad thing: it reflects our commitment to providing for our employees. Similarly, Yale has a responsibility to make sure that the pensions and post-retirement health benefits that it has promised to its employees can be relied on. As life expectancy has increased and interest rates remain low, we face a significant shortfall in the funds that we have reserved to cover future pensions and retiree health. Over the coming years, we will need to set aside more money for future retirees.

Another challenge is that the costs of scientific research continue to rise, but federal funding remains deeply constrained. Our total sponsored research has not yet recovered from the sequester, lagging slightly behind where it was five years ago, adjusted for inflation.

Despite these long-term worries, we are optimistic that by the end of this year the budget, even that of the central university, will be out of deficit: we will have finally emerged from the valley caused by the recession. Although it has been painful, we have come through relatively unscarred. Our total number of faculty, university wide, is 32 percent higher than it was in 2004. Even excluding the medical school, this number has

risen by 16 percent. The university's staff are up 17 percent over this same period, and within this, our unionized staff numbers have risen by 21 percent. In fact, in each of these groups our numbers are higher today than where they stood in fiscal year 2008, before the economic downturn.

But a university should always be looking and moving ahead. The point is not simply to balance our budget and maintain the status quo. We need to open up the financial space necessary to do the things we want to do — space so that we can pursue the new initiatives that will propel Yale forward. These include the new buildings on science hill that will transform not just biology but also its connections to the other sciences. Hendrie Hall's long-awaited renovation will provide better, safer, more accessible facilities to support our thriving music programs. New initiatives in financial aid will not only allow for a larger and more diverse Yale College, but keep all our schools across the university accessible to all.

To be able to afford these and other initiatives, we need to stay the course. This means sticking to the three-year target we set last year. We are slightly ahead of where we thought we would be: further cost savings in central administrative areas of less than 2 percent total over the next two years will bring us to our three-year 5 percent goal. After that we will need to achieve just small increases in productivity each year to fund initiatives in support of our core missions.

We are grateful to all of you who have done so much to help us improve Yale's financial picture to where it is today. You have embraced a spirit of collaboration, innovation, and dedication. We are confident that, working together, we will not only sustain but increase our success.