

# TFSC Finance Committee

## Presentation to TFSC

November 17, 2022 revised

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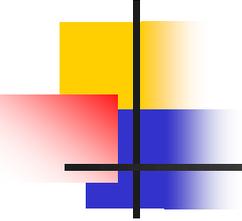
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and NET Institute <http://www.NETinst.org/>

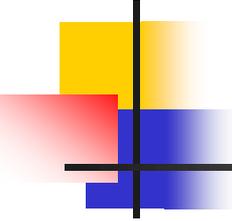
<mailto:economides@stern.nyu.edu>



# Topics

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- A. NYU Budget
- B. TFSC salary recommendation
- C. Retirement committee issues
  - (1) Bookkeeping fees
  - (2) Diversity in mutual funds offered
- D. Poor investment performance of NYU endowment



# A. NYU Washington Sq. and Dental School Budget (overview)

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- Excludes NYU SoM and Hospital
- Revenues: \$4 billion (approx.)
- Expenses: \$3.8 billion (approx.)
  - Retained earnings (profit): \$185 million (4.5%, small)

# Fast increase in borrowing in the last 7 years

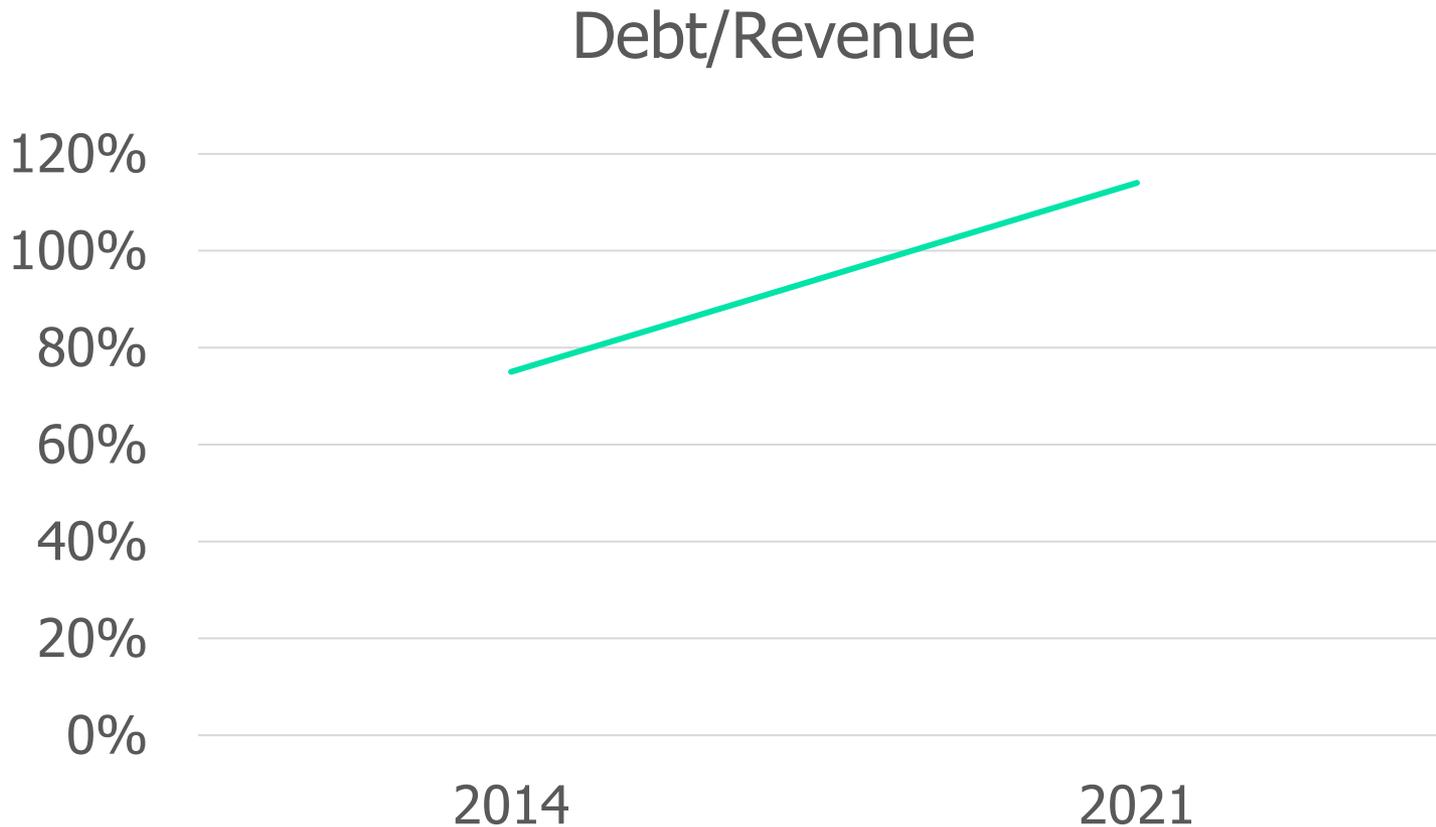
For Washington Sq. only, in billions

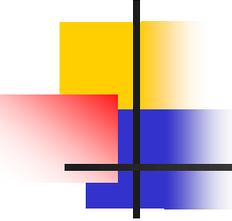
NYU Debt			
2014	2.07		
2021	4.20	203%	increase

NYU Budget			
2014	2.775		
2021	3.689	133%	increase

NYU's debt grew 53% faster than revenue

# Debt to revenue ratio increased significantly

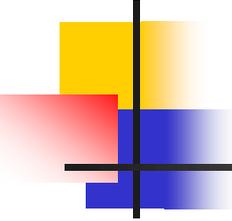




# Despite the fast and disproportional debt increase

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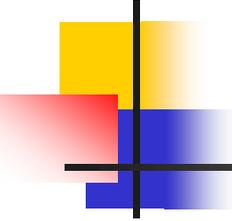
- NYU plans Capital Investment of \$329 million per year for each of the next 10 years (8.5% of yearly expenses)
  - New construction: \$95 million yearly
- Cost of current debt (interest plus capital payments) yearly: \$280 million (7% of yearly expenses)
  - Expected to increase as NYU will have to borrow at very significantly higher interest rates to finance its \$329 million per year capital investment
- New capital investment + cost of old debt: \$609 million yearly (15.5% of expenses), expected to increase



# USA facing inflation, recession, and uncertainty

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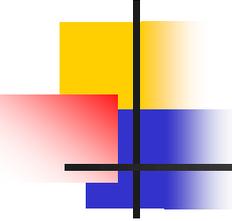
- But NYU must pay its debt cost = 7% of its budget
- And plans to spend 8.5% of budget in capital investment
- So, 15+ cents of every dollar earned will be spent on debt and capital investment every year



# NYU's debt

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- Most of debt is in NYU-issued bonds with interest rate of 4% to 4.5% depending on issue date
  - Rated “Aa2” and “AA-“ by Moody’s and S&P
- Since interest rates right now have skyrocketed, NYU does not plan to issue new debt right away but temporarily borrow from banks instead (despite higher interest rates)
- But NYU needs to issue \$525 million of new bond debt within the next few years



## B. Compensation issues

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- Inflation is running 8.5-10% per year
- As last year, in 2022-23 TFSC plans to ask for
  - an automatic salary increase equal to the inflation rate; plus
  - a merit increase equal to 3%
- NYU has “budgeted” a 4% increase in total (as it proposed originally last year)
  - 3% “bonus” was added later
- So, we will need to convince NYU Trustees that a below-inflation salary increase will be terrible for retention and morale of faculty

# C. Retirement issues

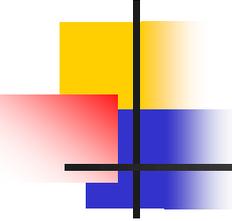
## (1) Bookkeeping fees

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- In 2021, TIAA started charging a “bookkeeping fee” per year per person to all NYU participants
- Fee is proportional to retirement assets in account
- Equal to 2.5 basis points (\$250 per \$1m of assets)
- This fee is significantly higher than TIAA charges participants in other Universities

# Bookkeeping fees by TIAA for retirement accounts at various Universities

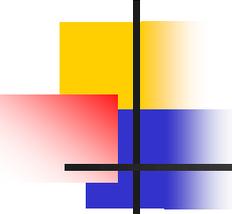
University	Fee per year	
Columbia Univ.	\$44	fixed fee
Dartmouth	\$55	fixed fee
NYU	<b>\$57.12</b>	2.5bp on assets
Stanford	\$0	no fee
Univ. of Pennsylvania	\$40	fixed fee
UC system	\$33	fixed fee
Yale	\$42	fixed fee
<b>Average fee excluding NYU</b>	<b>\$35.67</b>	



# Observations

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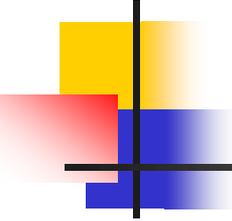
- In all other-than-NYU universities, participants pay a fixed bookkeeping fee per person, *not* a fee proportional to assets
- **NYU plan participants pay a fee 60% higher than the average fees of other universities**
  - One would expect that, given how much money the NYU plan has (\$4.8 billion for Washington Sq. and approx. \$7 billion for NYU Langone), NYU would have been able to negotiate a *lower fee* than other Universities, not a 60% *higher fee*.



# As a representative of TFSC in the Retirement Committee last year

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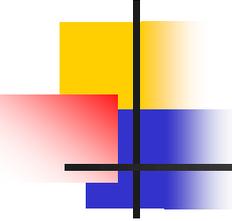
- I asked NYU a year ago and repeatedly in subsequent meetings to find out the bookkeeping fees paid by plan participants in other universities and then renegotiate with TIAA to set up a low fixed fee per person
  - NYU did nothing
- I am pessimistic about NYU doing anything positive on this.
  - NYU administration asked TFSC not to re-appoint me as an observer in the Retirement Committee.
  - But this problem is not personal
- High fees are paid by participants in the plans (faculty and administrators) but only the fiduciary (here NYU) can renegotiate fees with TIAA
- So, we are stuck



# For those of age above 59½

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- There is a partial solution
  - Depends on your age and preferences
- You have the right to transfer your own (not NYU's) contributions to an IRA account without tax or other penalty (if you are over 59½)
- Discount brokers (Fidelity, Schwab, Vanguard) do not charge fees for IRAs
- These IRA accounts also offer a much richer variety of investments (for example, individual stocks, ETFs, and options) that NYU does not offer



## (2) Diversity in mutual funds offered

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- NYU refuses to allow faculty to buy sectoral mutual funds that have consistently outperformed what it offers over the last 10 years
  - Despite the fact that is costless to NYU!
- Partial solution: Move your money out of NYU/TIAA and into an IRA, as discussed earlier

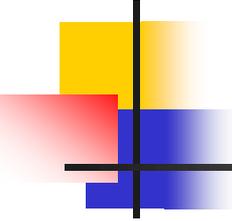
# D. Investment performance of NYU endowment

NYU's investment performance is poor

10-year rate of return				
NYU	Dow Jones	S&P500	Nasdaq	
7.30%	9.19%	10.89%	14.44%	

\$100 invested for 10 years would become \$202 under NYU's strategy but \$241-\$385 using the standard passive costless strategies above

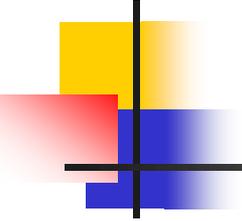
	NYU	Dow Jones	S&P500	Nasdaq
2012	\$100	\$100	\$100	\$100
2022	\$202	\$241	\$281	\$385



# Irrespective of performance of the endowment

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- NYU has drawn 3.5% per year from the endowment for many years
- Last year NYU has drawn 3.7% to increase funding of students' financial support



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- Questions