

# Sample Spending Policy

*(This policy should be adopted by the Endowment Program Committee or Trustees and reviewed at least annually.)*

The Committee (*or trustees*) shall determine the amount of funds available for annual distribution from each Program endowment fund in keeping with the investment objectives described in the Program Charter (*or endowment policy or investment policy*). Gift principal (typically understood to be the total initial value of all gifts placed in an endowment) shall not be expended.

A prudent portion of the annual earnings and/or accumulated appreciation of each fund may be expended each year. In the first few years following creation of an endowment, the availability of distributions is entirely dependent on the short-term actual investment returns. Therefore, it is recommended that a new endowment be given some time to accumulate additional value (appreciation) before starting distributions. If funds must be used immediately, distributions should be limited to actual dividend and interest income. Once an endowment has grown to at least 120% of its initial gift value, then a spending policy such as the following is appropriate. This calculation is done at the beginning of the year to determine the amount that will be used that year:

- 1) Calculate the average fund value over a period of three to five years.*
- 2) Calculate a percentage of that value – for example, five percent (5%).*
- 3) The resulting dollar amount can be distributed at the beginning of the year or in installments throughout the year as needed.*

This spending policy should be reviewed annually by the Committee to ensure that earnings and accumulated appreciation are adequate to sustain the distribution. The Committee may adjust the spending rate percentage as it deems appropriate in order to fulfill the purposes described in the Program Charter, but in no event shall the spending rate percentage be lower than three percent (3%) or higher than six percent (6%) unless specifically authorized by a two-thirds (2/3) majority vote of a properly called Church/Charge Conference.

## **EXAMPLE:**

The fund principal is \$50,000.

Fund values 12/31:

2012 = \$61,000

2013 = \$59,000

2014 = \$63,500

**Average = \$61,167 X 5% = \$3,058**