



# Sample Spending Policy

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

The goal of a spending policy is to allow for prudent, consistent, and sustainable annual distributions from an endowment fund. In addition, the long-term goal is to allow both the principal and the annual distributions to grow and maintain purchasing power.

Typical investment objectives include preservation of principal, principal appreciation that meets or exceeds inflation, and additional total return that can be used for distributions. The responsible church committee or board (*e.g., endowment committee, trustees, etc.*) shall determine the amount of the annual distribution from each endowment fund in keeping with policy objectives. Under normal circumstances, gift principal shall not be expended, except in keeping with the prudent management of charitable funds as described in the Missouri Statutes (RSMo 402.134).

**(NOTE:** *In the first few years following creation of an endowment, the availability of distributions is 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, we recommend limiting those distributions to no more than actual dividend and interest income.*)

In general, once an endowment has grown to about 120% of its initial gift value, then a spending policy such as the following will offer an effective way of meeting policy objectives. This calculation is done at the beginning of the year to determine the amount that will be used that year:

- 1) *Calculate the average annual fund value over the last three years (some use a five-year average as a more conservative policy).*
- 2) *Calculate a percentage of that value. In recent years, four percent (4%) has generally proved sustainable, but you may want to calculate the amount at 3%, 3.5%, 4.0%, 4.5%, and 5.0% to see what those amounts look like. A lower rate helps the fund grow. A higher rate (within reason) might be justified by strong investment*

- returns and/or a special ministry need.*
- 3) *Consider any growth or loss in fund value from investments and review past inflation and reasonable inflation projections.*
  - 4) *Determine which percentage amount best achieves your policy objectives for fund growth, preservation of purchasing power, and ministry needs.*
  - 5) *This distribution calculation is determined close to the beginning of the calendar (fiscal) year so that you know what you have to work with in the coming year. You may then draw down this amount in a lump sum or incrementally.*

The spending policy should be reviewed annually by the Committee to ensure that earnings and accumulated appreciation are adequate to sustain the distribution. *(Missouri adopted its version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) several years ago (RSMo 402.134). This allows some flexibility in the administration of endowments and even expenditure of principal within the context of a prudently diversified investment program and appropriate spending policy.)*

In general, your committee/board should have some reasonable leeway to make the annual adjustment to the spending rate with some provision for how a more significant deviation would be approved. For example:

Your committee/board may adjust the spending rate percentage as it deems appropriate to fulfill your policy objectives, 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.*

**Sample Spending Rate Calculation:**

The fund **principal is \$50,000** (total original value of all gifts into the fund in 2019).

Fund values 12/31:

2021 = \$71,000

2022 = \$58,000

2023 = \$68,500

**Average = \$65,833 X 4% = \$2,633**

The CPI calculator (online) says the inflation-adjusted principal should be about \$60,900 in today's dollars. So, the 4% distribution appears to meet our goals for the coming year (2024).