

SAMPLE

Endowment Spending Policy

Prepared by: United Methodist Foundation of Michigan

A. General Information

The (Name of church) Endowment Fund, (city, state), (hereafter “Endowment Fund” or “Fund”) hereby adopts this Statement of Spending Policy. The Fund operates as part of the committee structure of (Name of church, city, state) (hereafter “The Church”). The Endowment Fund provides grants to not-for-profit causes and organizations, which support the special needs of The Church and the larger United Methodist community.

B. Purpose

To put into place a consistent plan that will enable the Endowment Fund to approve and disburse funds that fulfill the ministry and designation of the Endowments received while working to further strengthen the financial base of the Endowment Fund.

C. Problems to Avoid

This spending policy is adopted in order to minimize the problems that could occur without a spending policy, including, but not limited to:

1. Erratic spending that may place the future of the Fund in jeopardy.
2. Ignoring the effect of Inflation thus decreasing the financial power of the Fund.
3. Lack of disbursements from the Endowment Fund giving it an inept or ineffective reputation causing a disinterest in future donations and bequests to the Fund.
4. Having the Fund invested too conservatively causing low growth and minimal disbursements, or having the Fund invested too aggressively causing high risk to the future of the Fund (Obviously, this is an issue for the Investment Sub Committee or the Endowment Committee, however, investment and spending policies are closely linked and must coordinate. These two committees must work hand-in-hand toward the successful ministry of the Endowment Fund).

D. Policies Adopted

The Endowment Committee hereby adopts the following policies as the components of its Spending Policy:

1. **Income Definition:** The Fund shall use the ‘Corporate Law’ definition of income, which generally defines income as earnings from all sources including interest, dividends, net rentals and capital appreciation.
2. **Inflation Retention:** The Fund shall retain sufficient ‘income’ to offset the long-term effects of inflation. Total income shall be reduced by an average rate of inflation in determining amounts available for grants and other distributions.
3. **Spending Rate**

Option A

The Fund shall use a spending rate based on assumed future rates of return and assumed future rates of inflation. Based on the asset mix selected in our Investment Policy, we make the following assumptions:

Assumed long-term future net investment returns	_____	%
Less: Assumed long-term rate of inflation	_____	%
Net available to spend	_____	%

Based on these assumptions, we hereby establish our annual spending rate at _____ %

Option B

The Fund shall use a spending rate based on actual past rates of return and actual past rates of inflation, as follows:

- a. For the purpose of calculating income available for grants and distributions, the rate of return shall be based on the _____ year (suggest 7 to 10 years) average net rate of return earned by the respective endowment account.
- b. If the endowment account has been in existence for less than _____ years, a _____ year rate of return shall be calculated using the actual return of the Fund or Funds in which the account assets are currently invested.
- c. The _____ year average rate of return determined in 3a above shall be reduced by the average rate of change in the Consumer Price Index (inflation) for the previous _____ years.
- d. The ‘spending rate’ shall be calculated by subtracting the _____ year average inflation rate from the _____ year average rate of return.
- e. Example –

Past _____ year actual net rate of return	_____	%
Less: _____ year actual rate of inflation	_____	%
Net = Spending Rate	_____	%

4. Application of Spending Rate

Option A

The 'Spending Rate' as determined above shall be applied to the account balance as of _____ each year. The resulting amount shall be available for distribution as gifts or grants.

Option B

The 'Spending Rate' as determined above shall be applied to the average account balance of the Endowment account at the end of the previous five calendar quarters (or some other number of quarters). The resulting amount shall be available for distribution as gifts or grants.

Option C

The 'Spending Rate' as determined above shall be applied to the average account balance of the Endowment account at the end of the previous _____ years (suggestion, 3 to 5 years). The resulting amount shall be available for distribution as gifts or grants.

4. Limitation on Spending (optional)

Option A

In no event shall The Fund make a distribution, which would reduce the account balance below inflation-adjusted principal. (We recommend this option)

Option B

In no event shall The Fund make a distribution that would reduce the account balance below the original principal.

5. Unspent Income

Income available for making grants or other distributions, as determined under the above policies, definitions and formula, but which is not disbursed for any reason, shall be available for disbursement in future years. However, by action of the Endowment Committee, undistributed income may be added to principal on a case-by-case basis.

Adopted by _____ **United Methodist**

Endowment Committee on _____, _____.

Note: Studies have shown that using a 5% spending policy and an endowment portfolio invested 60% equities and 40% fixed income securities is very unlikely to ever be depleted. These types of investing and spending policies have become extremely common in the not-for-profit endowments.

Note: This sample document was prepared by the United Methodist Foundation of Michigan and is to be used only as a guide for local churches in developing their own statement of policy.

This sample document can be supplied in electronic media form (computer file). If you wish to have an electronic media copy, please contact the Foundation office at (888)217-1905 or our website UMFMichigan.org.