

## WHAT IS A SPENDING POLICY?

As your permanent endowment program matures and your endowment assets grow, a systematic policy for harvesting growth becomes necessary. Here are some general considerations for your committee or board to address:

1. How do you currently determine endowment fund distributions or grants?
  - a. The traditional method – spending a certain percentage of income with income being defined as interest and dividends only. Unspent income is rolled back into principal.
  - b. The spending rate method – applying a pre-determined spending rate based on the average market value of the funds over a set period of time (usually the prior three year period). This method provides a predictable and stable stream of income from the real, inflation-adjusted return on assets.
2. What is stated in your governing documents (such as articles of incorporation or guidelines for a permanent endowment, such as bequest language in a will) regarding distributions? Do these documents need to be amended to comply with state law? On June 30, 2009, the Uniform Prudent Management of Institutional Funds Act (“UPMIFA” 760 ILCS 51/1) took effect in the State of Illinois. UPMIFA provides standards and guidelines for the management, investment, and expenditure of charitable funds and for endowment spending by institutions organized and operated exclusively for a charitable purpose. For further information, see the note below.
3. If current governing documents need to be amended, who has authority to amend them?
4. Determine steps for implementation of a spending rate policy.
  - a. Consider any prior donor restrictions on current endowment assets.
  - b. Determine best placement of spending policy:
    - by inserting the policy into existing governing documents;
    - by creating a separate stand-alone spending rate policy; or
    - by imbedding the policy into an investment policy statement

If you need assistance in understanding and implementing these steps or if you have questions regarding the sample policy enclosed, please contact Rev. Chris Walters, President, United Methodist Foundation.  
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*The State of Illinois’s Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) became effective as law June 30, 2009. The purposes of UPMIFA are to modernize rules, to articulate prudence standards, and to provide guidance and authority for the management and investment of charitable funds and for endowment spending. The new act provides greater direction with respect to making prudent determinations and requires charities to focus on donor intent and the purpose of endowment funds when managing institutional funds.*

*The most significant departure from prior laws is the elimination of “historic dollar value,” which was defined as all contributions to a fund, valued at the time of contribution. Institutions were generally not permitted to spend from an endowment fund that was at or below its historic dollar value unless the donor authorized it.*

*Under UPMIFA, institutions may spend or accumulate as much as they determine to be prudent, taking into account the donor’s intent, the duration and preservation of the endowment fund, and the purposes of the institution and the endowment fund. Assets in an endowment fund are donor restricted assets until appropriated for expenditure.*

*According to the law firm Quarles & Brady LLP: “The new spending rules in UPMIFA specifically apply to ‘endowment funds’ held by institutions. For purposes of UPMIFA, an ‘endowment fund’ is an institutional fund that is not wholly expendable on a current basis because of a donor restriction in the gift instrument governing the endowment fund. The endowment restriction may be either permanent or for a limited duration. The new spending rules do not apply to all institutional funds. Only donor-restricted endowment funds are subject to UPMIFA’s endowment fund spending rules. Such provisions do not apply to funds that are restricted only by a board of directors or to funds only informally referred to as ‘endowments.’”*

<http://www.quarles.com/publications/illinois-adopts-upmifa-historic-dollar-value-rule-for-endowments-eliminated/>

The following sample policy describes a prudent approach to determining endowment fund distribution.

## SAMPLE Endowment Spending Policy

### General Information

The (Name of church) Endowment Fund, (city, state), (hereafter “Endowment Fund” or “Fund”) hereby adopts this Statement of Spending Policy. The purpose of this statement is 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.

### 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 (Name of church) and/or 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).

### Distributions

Each year a distribution will be made available to the church by the Endowment Committee from the endowment fund. The Committee shall determine the amount of funds available for annual distribution from each designated endowment fund in keeping with the investment objectives described in the Guidelines.

This distribution will be calculated as 4% of the average balance of the previous twelve quarters.

This spending rate policy shall be reviewed annually by the Committee. The Committee may adjust the spending rate percentage as it deems appropriate in order to fulfill the purposes described in the Endowment Guidelines, but in no event shall the spending rate percentage be lower than three percent (3%) or higher than five percent (5%) unless authorized by a two-thirds (2/3) majority of a properly called Charge Conference.

Any portion of the annual, distributable funds not distributed in any given year will be retained in The Endowment Fund for expenditure in future years, upon recommendation of *the Finance Committee in consultation with the Board of Trustees and with the ratification of the Administrative Council.* [to be customized]

Adopted by \_\_\_\_\_ United Methodist Church

Permanent Endowment Fund Committee on \_\_\_\_\_, 20\_\_.