

# Endowments and Spending Policy

*Connecting People Who Care With Causes That Matter*

**Endowments cope with the phenomenon of inflation. York County Community Foundation would have a fraction of the grantmaking power it has today if all its investment growth and income had been given away.**

“The trustees of an endowed institution are the guardians of the future against claims of the present. Their task is to preserve equity among generations.”

- *David Swensen, CIO  
Yale Endowment*

As a result, endowment managers across the country and in every discipline are now imposing spending policies that seek to achieve two key goals: to maintain at least the real value of the endowment (i.e. original gift value plus inflation), and to smooth out the short-term roller-coaster ride that inevitably results from investing in stock and bond markets.

The latter is particularly critical to organizations attempting to project budgets based on endowment income. A down year in the stock market can be destabilizing; a great year can result in over-optimistic spending.

Spending policies vary, usually based on what the manager predicts investments can earn, minus inflation. **In 1993, York County Community Foundation adopted a spending policy discipline which limits spending from each endowment to a percentage (or spending policy rate) of its average market value over the preceding twelve quarters. Our current spending policy is 4.5%, which was initially adopted in 2003, and is reviewed annually. As long term investors, we anticipate that there will be periods of significant market decline. Accordingly, our spending policy includes triggers for reducing spending to 3% or suspending spending where appropriate during these times.**

Heritage Fund Endowment partners may elect a spending policy of 4.5% or 0% (automatic reinvestment) subject to the above triggers.

## *Giving for perpetuity*

Endowments provide income for worthwhile projects, causes, and organizations. Managed prudently and thoughtfully, endowments will continue to provide support as long as the recipient needs it. A spending policy like that instituted by York County Community Foundation is a cornerstone of that careful management.

## *A long-term view*

The long-term effect of a spending policy is dramatic. Because income earned over distributions is added to principal, inflation is combated and frequently exceeded. With the resulting growth in principal, the beneficiary receives more income over time than if they had received all the income every year.

Admittedly, with a spending policy, the beneficiary receives less in the early years of an endowment. But because foundation endowments are all about long-term – in fact, perpetual – charitable support, the value of limiting spending now to provide continuing support at rising levels in the future is inescapable.

In addition, the dollars earned above inflation in good years should counter inevitable sub-inflation investment earnings in down years.

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*In addition to careful management of investments,  
the other cornerstone to administering an endowment  
is to establish a prudent spending policy.*

### ***One percent makes a difference***

Table 1, below, reflects the growth (or loss) over a 45 year period of a \$1 million endowment based on representative portfolios managed by foundations.

With a 5.5 % spending cap, the endowment would have grown in real value by 25%, and would have spent nearly seven and a half times the original gift. Had the same endowment spent 6.5% - only one percent more – during the same period, however, the real value would have dropped 18.9%, and the beneficiary would have received less in grants. At 7.5 % and higher spending levels, the difference becomes a chasm.

**Table 1: Analysis of Asset Growth (Loss) and Spending at Different Spending Rates (in Thousands of Dollars)**

	TOTAL SPENDING		
	5.5 PERCENT	6.5 PERCENT	7.5 PERCENT
1950 Asset Value	1,000	1,000	1,000
1994 Inflation-Adjusted Asset Value	1,254	813	524
1950-1994 Percentage Growth	25.4%	(18.9)%	(47.6)%
1950-1994 Total Spending	7,454	6,699	5,960

*Note: The above is adapted from Spending Policies and Investment Planning for Foundations, a study commissioned by the Council on Foundations and prepared by DeMarche Associates, Inc. in 1995. To determine investment returns at each spending rate, DeMarche Associates used representative asset allocations for foundations as determined by surveys.*

### ***York County Community Foundation***

York County Community Foundation was created in 1961, encouraging involvement of many donors to benefit a specific geographic area – in this case, York County. Now with assets of over \$50 million, earnings from those assets are utilized annually to respond to community needs and donor wishes.

York County Community Foundation serves as permanent steward for more than 400 funds established by charitably-minded individuals, families, organizations and corporations. The Community Foundation holds these funds in perpetuity, investing to preserve principal and grow their income. And with this income, the Community Foundation:

- Makes grants to hundreds of worthwhile charities;
- Provides scholarship assistance; and
- Underwrites major initiatives in education, health care, children’s issues, environment, as well as the arts.

For more information, contact the Foundation’s Finance Office at 717.848.3733.