

Spending Policy

Restricted Endowed Funds



Southwest Michigan Innovation Center, Kalamazoo | Photograph by Robert Neumann

The objective of our spending policy for endowed funds, which determines the dollars available for grantmaking each year, is to provide a structure for the systematic distribution of funds in an unstable and unpredictable investment world. Our spending policy administration is guided by the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Community Foundation offers a variety of spending options for restricted endowed funds, including the variable spending option, which is applied to the Community Foundation’s unrestricted assets. This enables donors to recommend a spending policy for an Advised, Scholarship or Designated Fund that is most closely aligned with their charitable goals.

Spending Policy Options

Spending Policy Option	4%	Variable 4 – 5%	4.5%	5%	5.5%
Investment Goals		Likelihood of Achieving Goals Over Time			
Grow Assets	Highest	←————→			Lowest
Protect Real Asset Value	Highest	←————→			Lowest
Increase Long-term Spending	Highest	←————→			Lowest
Increase Annual Spending Now	Lowest	←————→			Highest
Related Goals					
Potential for Market Invasion (if applicable)	Lowest	←————→			Highest
Consistency In Spending		Highest			

Distributing endowment funds

At the beginning of each year, the gross amount calculated as of the prior June 30 is transferred to the spendable side of a fund. Our administrative fee (see below) is then deducted and the net amount is available for distribution.

Fees

There are two fees assessed on funds:

- An administrative fee helps to cover our operation costs and, as noted above, is taken from the calculated spendable.
- An annual investment fee covers costs incurred to provide investment oversight and, like investment manager fees, is taken from principal.



How it works

Variable Spending Option

If the variable spending option is recommended by the donor(s), the spendable will be calculated as follows:

- For a new endowed fund, the spendable for the first year will be 4.5 percent of the initial gift(s).

Thereafter, the amount available for distribution annually is calculated on June 30 as follows:

- First, the current year's spendable is adjusted by the CPI-U.
- That amount is then compared to 4 percent and 5 percent of the 20-quarter rolling average.
- If it is greater than 4 percent and less than 5 percent of the 20-quarter rolling average, the amount resulting from the CPI-U calculation is the spendable amount for the next year.
- If the CPI-U calculation is less than 4 percent, the amount available for the next year will be 4 percent. If the CPI-U calculation is greater than 5 percent, the amount available will be 5 percent.

Fixed Spending Option

If a fixed spending option is recommended by the donor(s), the spendable for the first year will be the rate selected (4 percent, 4.5 percent, 5 percent or 5.5 percent) times the number of quarters the fund existed prior to June 30.

Note: *Once a spending policy option has been recommended for a fund, it will remain in place (absent extraordinary circumstances) for five years.*

Spending policy results are reviewed annually and a report is prepared every five years showing the progress of our spending formula in relation to specific measurements. We also ask our legal counsel to conduct an UPMIFA assessment every five years to ensure our board of trustees and staff are working within the "expenditure of funds" requirement of the statute.