# SPENDING POLICIES AND PRACTICES
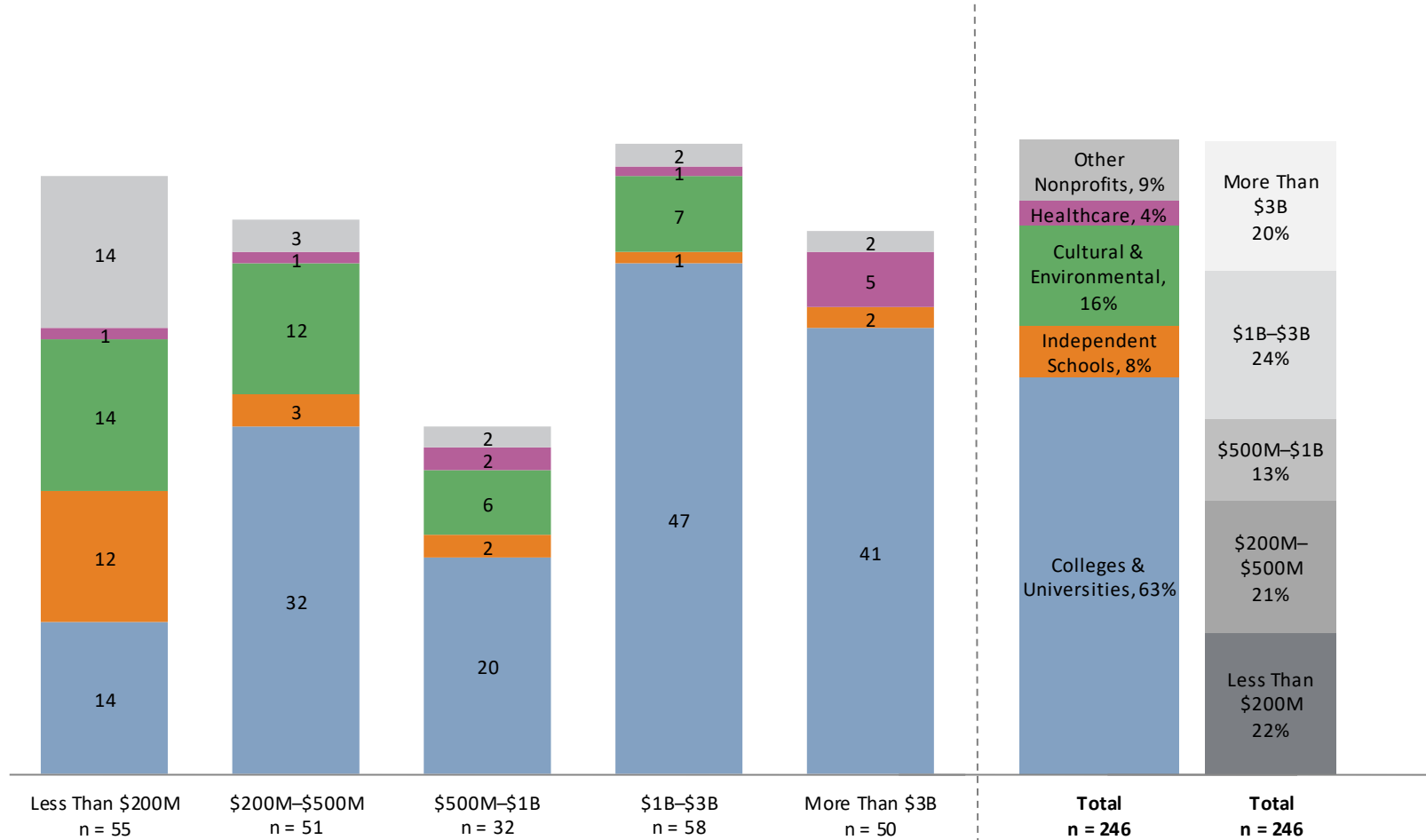
## FISCAL YEAR 2022

# Profile of Participating Institutions

## NUMBER OF INSTITUTIONS
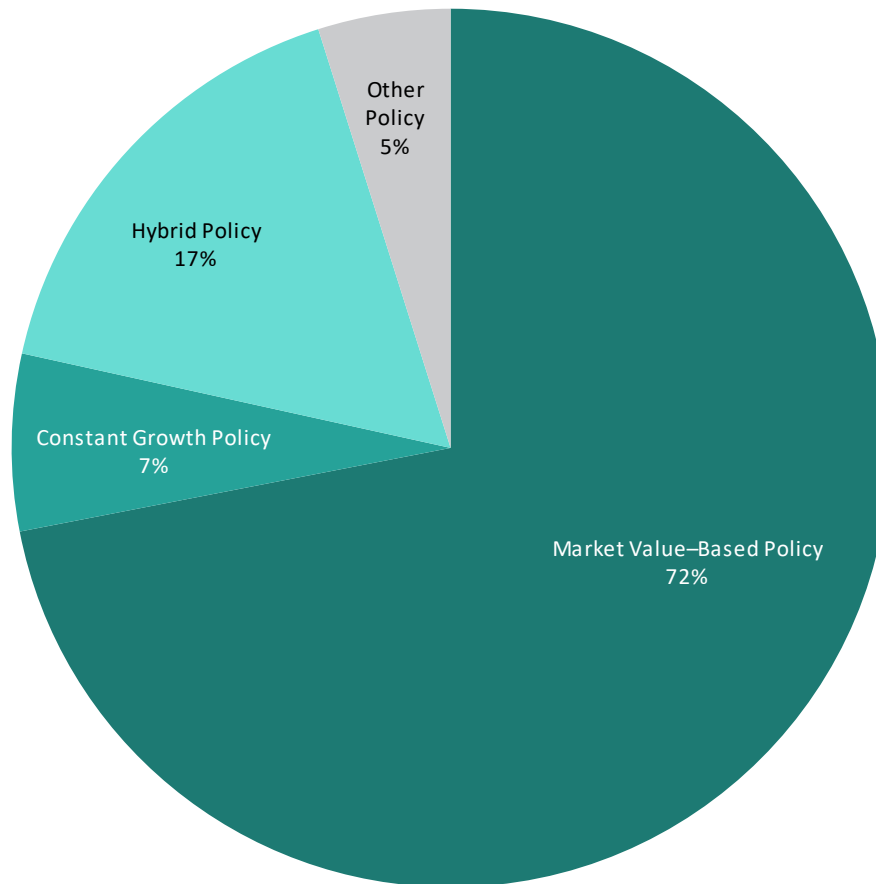2022 • n = 246



| | Less Than $200M<br>n = 55 | $200M–$500M<br>n = 51 | $500M–$1B<br>n = 32 | $1B–$3B<br>n = 58 | More Than $3B<br>n = 50 | Total<br>n = 246 |
|---|---|---|---|---|---|---|
| Other Nonprofits | 14 | 3 | 2 | 2 | 2 | 9% |
| Healthcare | 1 | 1 | 2 | 1 | 5 | 4% |
| Cultural & Environmental | 14 | 12 | 6 | 7 | | 16% |
| Independent Schools | 12 | 3 | 2 | 1 | 2 | 8% |
| Colleges & Universities | 14 | 32 | 20 | 47 | 41 | 63% |

Total n = 246

More Than $3B 20%
$1B–$3B 24%
$500M–$1B 13%
$200M–$500M 21%
Less Than $200M 22%

# Spending Policy Types

**PERCENTAGE OF RESPONDENTS**

2022 • n = 246

Institutions in this study use three primary spending rule types. **Market value–based** rules—the most common among participants—link the spending amount directly to the endowment's market value. **Constant growth** rules increase spending each year by a defined growth factor. **Hybrid** policies combine the elements of both market value–based and constant growth rule types.

Other Policy
5%

Hybrid Policy
17%

Constant Growth Policy
7%

Market Value–Based Policy
72%

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# Spending Policy Types by Asset Size and Institution Type

**NUMBER AND PERCENTAGE OF RESPONDENTS**
2022 • n = 246

### By Asset Size

| | Market Value–Based | Constant Growth | Hybrid | Other |
|---|---|---|---|---|
| Less Than $200M | 84% | — | 15% | 2% |
| n | 46 | | 8 | 1 |
| $200M–$500M | 84% | 2% | 10% | 4% |
| n | 43 | 1 | 5 | 2 |
| $500M–$1B | 69% | 13% | 19% | — |
| n | 22 | 4 | 6 | |
| $1B–$3B | 57% | 12% | 22% | 9% |
| n | 33 | 7 | 13 | 5 |
| More Than $3B | 66% | 8% | 18% | 8% |
| n | 33 | 4 | 9 | 4 |

### By Institution Type

| | Market Value–Based | Constant Growth | Hybrid | Other |
|---|---|---|---|---|
| Colleges & Universities | 71% | 10% | 15% | 5% |
| n | 109 | 15 | 23 | 7 |
| Independent Schools | 65% | — | 30% | 5% |
| n | 13 | | 6 | 1 |
| Cultural & Environmental | 69% | 3% | 21% | 8% |
| n | 27 | 1 | 8 | 3 |
| Healthcare | 90% | — | 10% | — |
| n | 9 | | 1 | |
| Other Nonprofits | 83% | — | 13% | 4% |
| n | 19 | | 3 | 1 |

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# Market Value–Based Policies: Target Spending Rates

**TARGET SPENDING RATES**

2022 • n = 174



Legend:
- Less Than 4.00%
- 4.00%–4.49%
- 4.50%–4.99%
- 5.00%
- 5.01%–5.99%
- 6.00% and Above

Pie chart values: 3%, 24%, 27%, 38%, 4%, 4%

A market value–based rule dictates spending a percentage of the endowment's market value, which is most often represented by a moving average over a smoothing period. By linking the spending distribution amount directly to the endowment's market value, this rule type usually produces the most dramatic changes in spending when investment conditions shift. Therefore, purchasing power preservation is prioritized during periods when the endowment's market value declines. The primary levers of this approach are the target spending rate and the date or smoothing period used to measure the market value. Some institutions also use a cap and floor to contain changes in annual spending during volatile market periods.

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# Market Value–Based Policies: Target Spending Rates by Asset Size and Institution Type

**NUMBER AND PERCENTAGE OF RESPONDENTS**
2022 • n = 174

## By Asset Size

|  | Less Than 4.00% | 4.00%– 4.49% | 4.50%– 4.99% | 5.00% | 5.01%– 5.99% | 6.00% and Above |
|---|---|---|---|---|---|---|
| Less Than $200M | 4% | 17% | 26% | 41% | 4% | 7% |
| n | 2 | 8 | 12 | 19 | 2 | 3 |
| $200M–$500M | 2% | 19% | 37% | 33% | 5% | 5% |
| n | 1 | 8 | 16 | 14 | 2 | 2 |
| $500M–$1B | 5% | 33% | 10% | 52% | — | — |
| n | 1 | 7 | 2 | 11 | | |
| $1B–$3B | — | 34% | 25% | 34% | 3% | 3% |
| n | | 11 | 8 | 11 | 1 | 1 |
| More Than $3B | 3% | 25% | 28% | 34% | 6% | 3% |
| n | 1 | 8 | 9 | 11 | 2 | 1 |

## By Institution Type

|  | Less Than 4.00% | 4.00%– 4.49% | 4.50%– 4.99% | 5.00% | 5.01%– 5.99% | 6.00% and Above |
|---|---|---|---|---|---|---|
| Colleges & Universities | 2% | 28% | 26% | 37% | 4% | 3% |
| n | 2 | 30 | 28 | 39 | 4 | 3 |
| Independent Schools | 8% | 31% | 62% | — | — | — |
| n | 1 | 4 | 8 | | | |
| Cultural & Environmental | — | 7% | 22% | 56% | 11% | 4% |
| n | | 2 | 6 | 15 | 3 | 1 |
| Healthcare | — | 22% | 11% | 44% | — | 22% |
| n | | 2 | 1 | 4 | | 2 |
| Other Nonprofits | 11% | 21% | 21% | 42% | — | 5% |
| n | 2 | 4 | 4 | 8 | | 1 |

# Market Value–Based Policies: Smoothing Periods

**SMOOTHING PERIODS: LENGTH OF PERIOD AND UNIT OF TIME MEASUREMENT**
2022 • n = 171

| Monthly | Quarterly | Annually |
|---|---|---|
| 12 Months (n = 3) | 4 Quarters (n = 2) | Single Point in Time (n = 2) |
| | 9 Quarters (n = 1) | |
| 36 Months (n = 8) | 12 Quarters (n = 71) | 3 Years (n = 20) |
| | 13 Quarters (n = 4) | |
| | 14 Quarters (n = 1) | |
| | 15 Quarters (n = 1) | |
| | 16 Quarters (n = 6) | 4 Years (n = 1) |
| 60 Months (n = 6) | 20 Quarters (n = 17) | 5 Years (n = 17) |
| | 21 Quarters (n = 1) | |
| | 22 Quarters (n = 1) | |
| | 23 Quarters (n = 1) | |
| | 24 Quarters (n = 1) | |
| | 25 Quarters (n = 1) | |
| | 28 Quarters (n = 1) | 7 Years (n = 2) |
| | | 10 Years (n = 2) |

Shorter ↑ Longer ↓

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# Market Value–Based Policies: Spending Policy Collars

**MARKET VALUE–BASED SPENDING POLICIES**

| COLLARS (n = 9) | CAPS ONLY (n = 7) | FLOORS ONLY (n = 2) |
|---|---|---|
| ▪ 100%–105% of prior year's payout | ▪ 103% of prior year's payout | ▪ 100% of prior year's payout (n = 2) |
| ▪ 102%–105% of prior year's payout | ▪ 105% of prior year's payout | |
| ▪ 90%–107% of prior year's payout | ▪ 110% of prior year's payout (n = 2) | |
| ▪ 90%–110% of prior year's payout | ▪ 5.3% of current MV | |
| ▪ 3.0%–4.0% of trailing four-quarter average MV | ▪ 6.0% of current MV (n = 2) | |
| ▪ 3.0%–5.0% of current MV | | |
| ▪ 3.5%–6.0% of current MV | | |
| ▪ Inflation bands linked to CPI-U (n = 2) | | |

# Market Value–Based Policies: Changes to Target Spending Rates Over Time

**INSTITUTIONS CHANGING TARGET RATES IN MARKET VALUE–BASED SPENDING POLICIES**



| | 2017–18 (n = 166) | 2018–19 (n = 170) | 2019–20 (n = 181) | 2020–21 (n = 151) | 2021–22 (n = 158) | Full 5 Years 2017–22 (n = 124) |
|---|---|---|---|---|---|---|
| Decreased Rate | 10% | 11% | 9% | 9% | 11% | 23% |
| Increased Rate | 3% | 6% | 2% | 5% | 7% | 11% |
| Same Rate | 87% | 83% | 89% | 85% | 82% | 65% |

■ Same Rate    ■ Increased Rate    ■ Decreased Rate
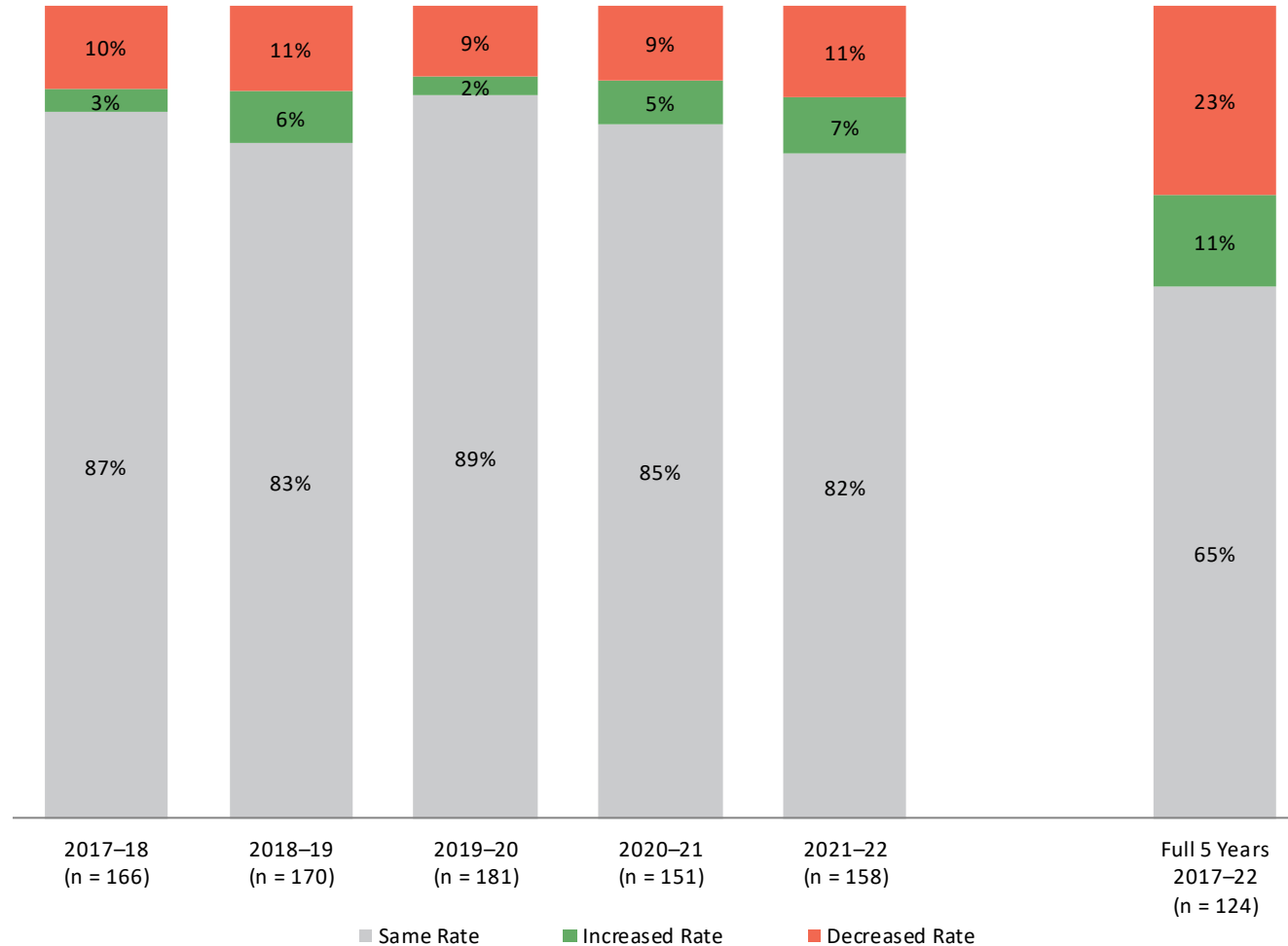
In fiscal year 2022, 82% of institutions used the same target spending rate as reported in the previous year. This is consistent with the trend we have observed over the last five years, where most institutions make no change in any given year. Over the full five-year period, nearly two-thirds of respondents maintained a consistent target spending rate.

# Constant Growth Policies

## GROWTH RATES USED IN CONSTANT GROWTH SPENDING POLICY CALCULATION
2022 • n = 17



Other
6%

Inflation Index
41%

Prespecified
Percentage
53%
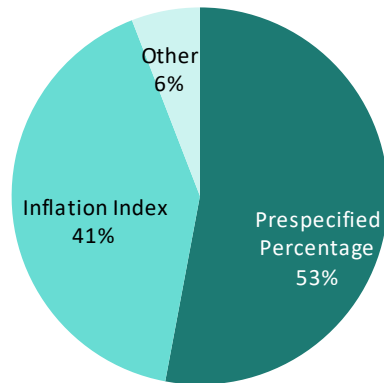
### Prespecified Percentage
- 4.5% *(n = 1)*
- 4.0% *(n = 1)*
- 3.0% *(n = 2)*
- 2.5% *(n = 2)*
- 2.0% *(n = 3)*

### Inflation Index
- CPI-U *(n = 5)*
- CPI-U, 3-yr average *(n = 1)*
- HEPI, 5-yr average *(n = 1)*

### Other
- Board approves rate each year

| COLLARS (n = 15) | |
|---|---|
| - 4.5%–6.5% of 4-quarter average MV | - 4.0%–6.0% of 3-year average MV |
| - 4.5%–5.5% of 3-year average MV | - 4.0%–6.0%; time period not specified |
| - 4.5%–5.5% of 20-quarter average MV (n = 2) | - 3.9%–4.9% of 12-quarter average MV |
| - Floor: 4.5% of 8-quarter average MV; Cap: 5.5% of 4-quarter average MV | - 3.75%–5.0% of 12-quarter average MV |
| - 4.5%–4.9% of 21-quarter average MV | - 3.5%–5.5% of 3-year average MV |
| - 4.0%–7.0% of of beginning year MV | - 3.0%–4.4% of 12-quarter average MV |
| - 4.0%–6.5% of 3-year average MV | CAP ONLY (n = 1) |
| - 4.0%–6.0% of beginning year MV | - Up to 6% of 12-quarter average MV |

A constant growth spending policy increases the prior year's spending amount by a measure of inflation or a prespecified growth rate. The strict application of a constant growth rule produces predictable spending but has notable shortcomings—increasing spending during prolonged periods of low or negative investment returns quickly eats away at an already dwindling market value and may permanently impair the endowment. Conversely, in a high-return environment, this type of policy can be perceived as significantly under-spending. In practice, institutions mitigate these shortcomings by imposing a spending cap and floor based on a percentage of the endowment's market value or a moving average of market values.

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## Hybrid Policies

**HYBRID SPENDING POLICIES: WEIGHTINGS OF CONSTANT GROWTH AND MARKET VALUE–BASED COMPONENTS**
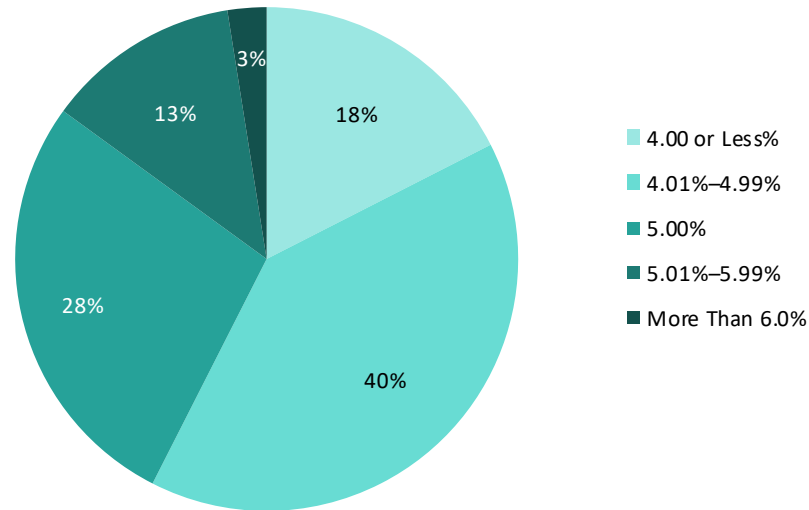
2022 • n = 41

| Policy | Count |
|---|---|
| 70% Constant Growth/ 30% MV–Based | 24 |
| 80% Constant Growth/ 20% MV–Based | 8 |
| 60% Constant Growth/ 40% MV–Based | 4 |
| 50% Constant Growth/ 50% MV–Based | 2 |
| 75% Constant Growth/ 25% MV–Based | 1 |
| 40% Constant Growth/ 60% MV–Based | 1 |
| 30% Constant Growth/ 70% MV–Based | 1 |
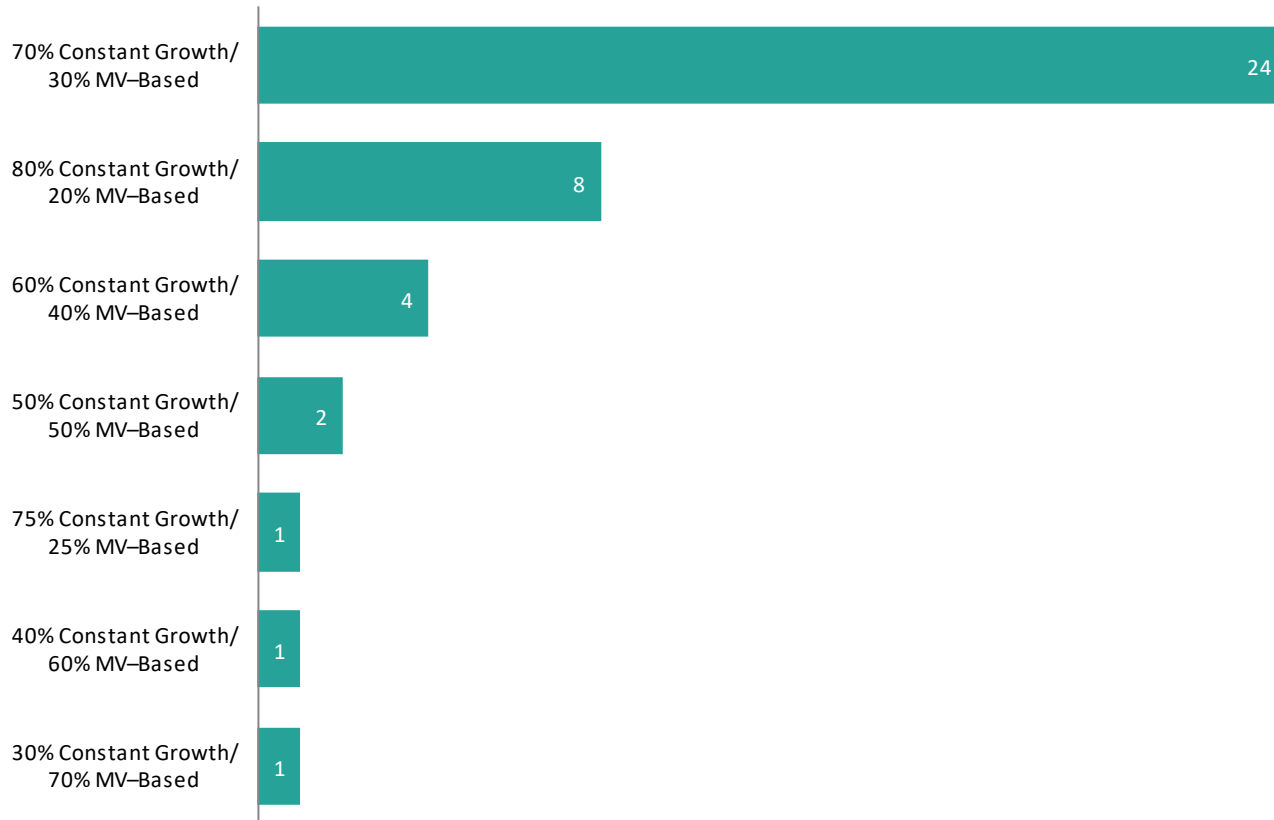
A hybrid spending policy blends the more predictable spending element of a constant growth policy with the asset preservation principle of a market value–based policy. It allows an institution to set the appropriate mix that best meets its needs. The rule is expressed as a weighted average of a constant growth rule and a percentage-of-market value (or average market value over a period of time) rule. The larger the weighting to the market value component, the more impact that a change in the endowment's market value will have on the annual spending distribution. Most institutions apply the larger weighting to the constant growth component, emphasizing more predictable spending.

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# Hybrid Policies (continued)

## TARGET RATES USED IN MARKET VALUE COMPONENT
2022 • n = 40



- 4.00 or Less%
- 4.01%–4.99%
- 5.00%
- 5.01%–5.99%
- More Than 6.0%

Pie chart values: 18%, 40%, 28%, 13%, 3%

## SMOOTHING PERIODS USED IN MARKET VALUE COMPONENT
2022 • n = 41

| | Monthly | Quarterly | Annually |
|---|---|---|---|
| Shorter → | 12 Months (n = 2) | 4 Quarters (n = 8) | Single Point in Time (n = 14) |
| | 36 Months (n = 2) | 12 Quarters (n = 9) | 3 Years (n = 3) |
| Longer ↓ | | 13 Quarters (n = 1) | |
| | | 16 Quarters (n = 1) | |
| | | | 10 Years (n = 1) |

Source: Spending policy data collected by Cambridge Associates LLC.
Note: The color shadings in the smoothing period table are darkest for the measurement periods that were cited by the greatest number (n=) of institutions.

# Hybrid Policies (continued)

**GROWTH MEASURES USED IN CONSTANT GROWTH COMPONENT**

2022 • n = 35
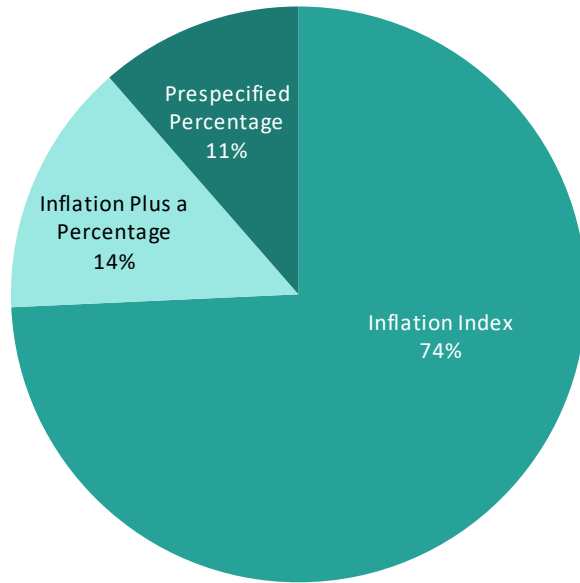


**Inflation Index**
- CPI-U *(n = 15)*
- Higher Education Price Index *(n = 9)*
- 60% ECI/40% CPI-U *(n = 1)*
- CPI-U: Elementary and High School Tuitions and Fees *(n = 1)*

**Inflation Index Plus a Percentage**
- CPI-U + 1.5% *(n = 1)*
- CPI-U + 1.0% *(n = 4)*

**Prespecified Percentage**
- 2.0% *(n = 3)*
- 2.5% *(n = 1)*

| COLLARS (n = 11) | |
|---|---|
| 3.0%–5.0% of current MV | 4.0%–6.25%; time period not specified |
| 3.5%–5.0% of current MV | 4.0%–6.5% of prior year beginning MV |
| 3.75%–5.75% of prior year beginning MV | 4.5%–6.0%; time period not specified |
| 4.0%–5.5%; time period not specified | 4.75%–5.75%; time period not specified |
| 4.0%–6.0% of current MV | **CAP ONLY (n = 1)** |
| 4.0%–6.0% of November 30 MV | 5.0% of 5-year average MV |
| 4.0%–6.0% of 12-quarter average MV | |

## Support of Operations by Institution Type

**LTIP SUPPORT OF OPERATIONS AS A PERCENTAGE OF TOTAL OPERATING EXPENSES**

*2022*
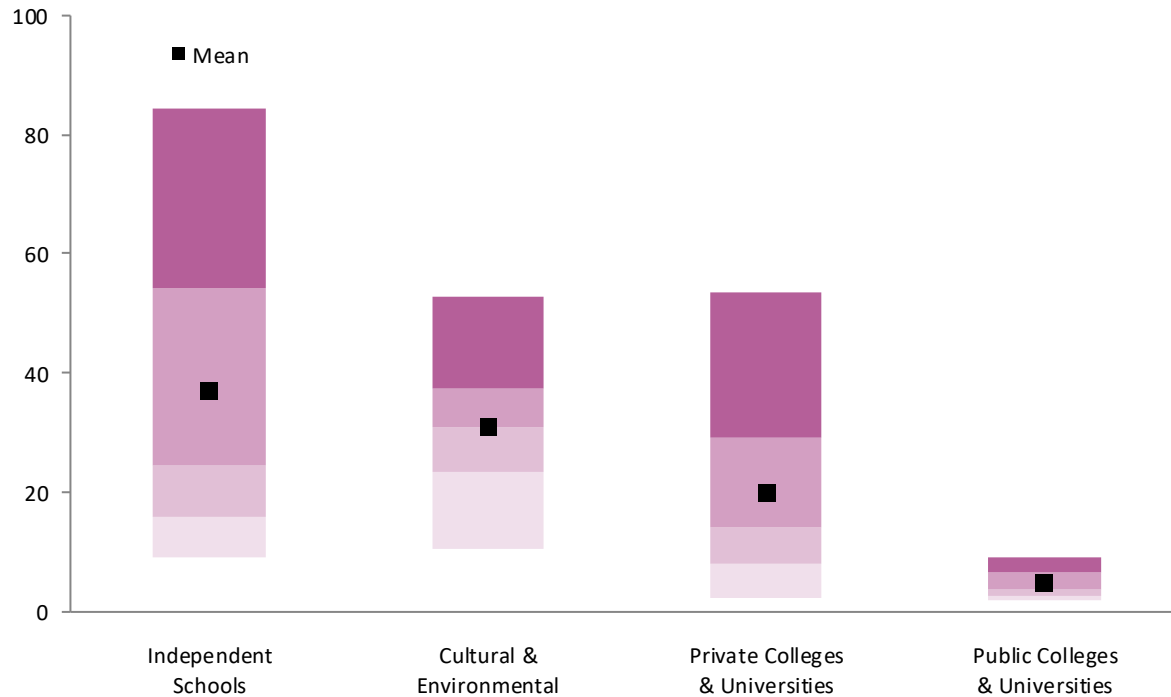


Since few nonprofit institutions generate enough revenue from their core operations to break even on their annual operating budgets, many rely on their long-term investment portfolio (LTIP) to provide additional financial support. The percentage of the operating budget funded by the LTIP varies considerably among the institutions in this study. Spending distributions supported 1% or less of the operating budget for some institutions but serve as the single largest source of revenue for others.

|  | Independent Schools | Cultural & Environmental | Private Colleges & Universities | Public Colleges & Universities |
|---|---|---|---|---|
| 5th Percentile | 84.2 | 52.9 | 53.5 | 9.2 |
| 25th Percentile | 54.3 | 37.4 | 29.1 | 6.4 |
| Median | 24.6 | 30.8 | 14.1 | 3.8 |
| 75th Percentile | 15.7 | 23.5 | 7.9 | 2.7 |
| 95th Percentile | 9.2 | 10.5 | 2.3 | 1.8 |
| Mean | 36.9 | 31.1 | 19.8 | 4.8 |
| n | 8 | 8 | 80 | 12 |

Source: Spending policy data collected by Cambridge Associates LLC.
Note: LTIP support of operations is the proportion of the operating budget that is funded from LTIP payout.

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## Support of Operations by Spending Rule Type

**LTIP SUPPORT OF OPERATIONS AS A PERCENTAGE OF TOTAL OPERATING EXPENSES**
*2022*
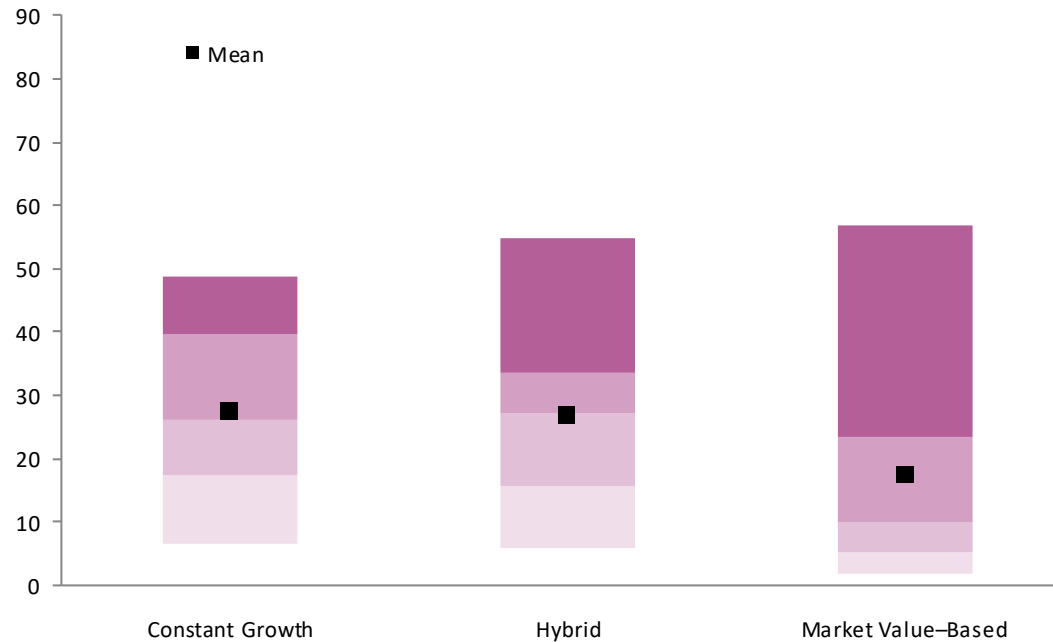


The median LTIP support ratios are highest for the subgroups of participants that have constant growth or hybrid policies. The more predictable stream of spending dollars presumably makes these rule types appealing to institutions that rely on the LTIP to fund a substantial portion of the operating budget.

| | Constant Growth | Hybrid | Market Value–Based |
|---|---|---|---|
| 5th Percentile | 48.7 | 54.8 | 56.9 |
| 25th Percentile | 39.8 | 33.7 | 23.4 |
| Median | 26.1 | 27.3 | 9.9 |
| 75th Percentile | 17.3 | 15.7 | 5.1 |
| 95th Percentile | 6.5 | 6.1 | 1.9 |
| Mean | 27.4 | 26.7 | 17.4 |
| *n* | *8* | *25* | *73* |

# Effective Spending Rate Trends

**MEAN EFFECTIVE SPENDING RATE**

2013–22 • Percent (%) • n = 82
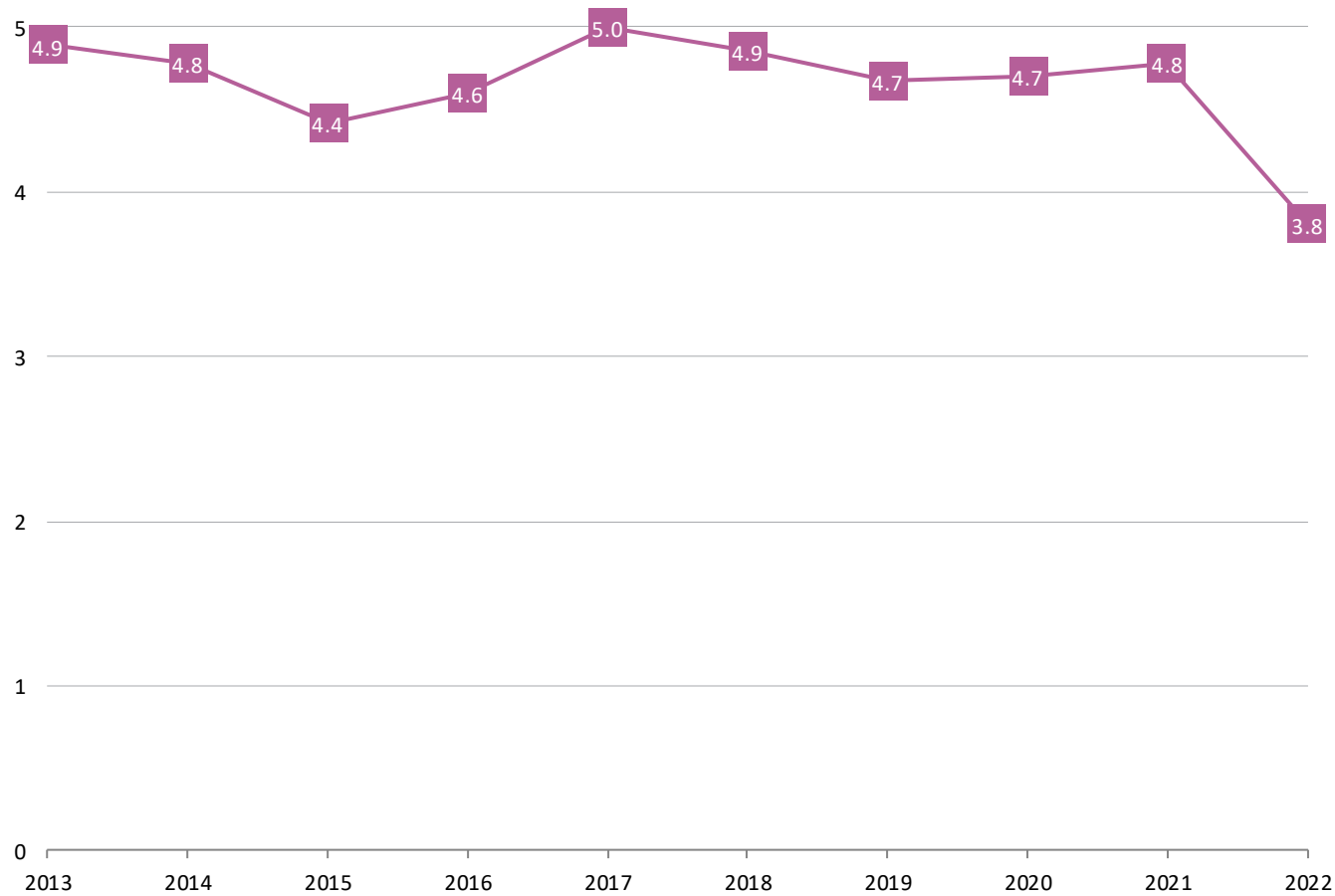


The effective spending rate is calculated as the total annual spending distribution as a percentage of the beginning market value of the LTIP.

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