

SPENDING POLICIES AND PRACTICES

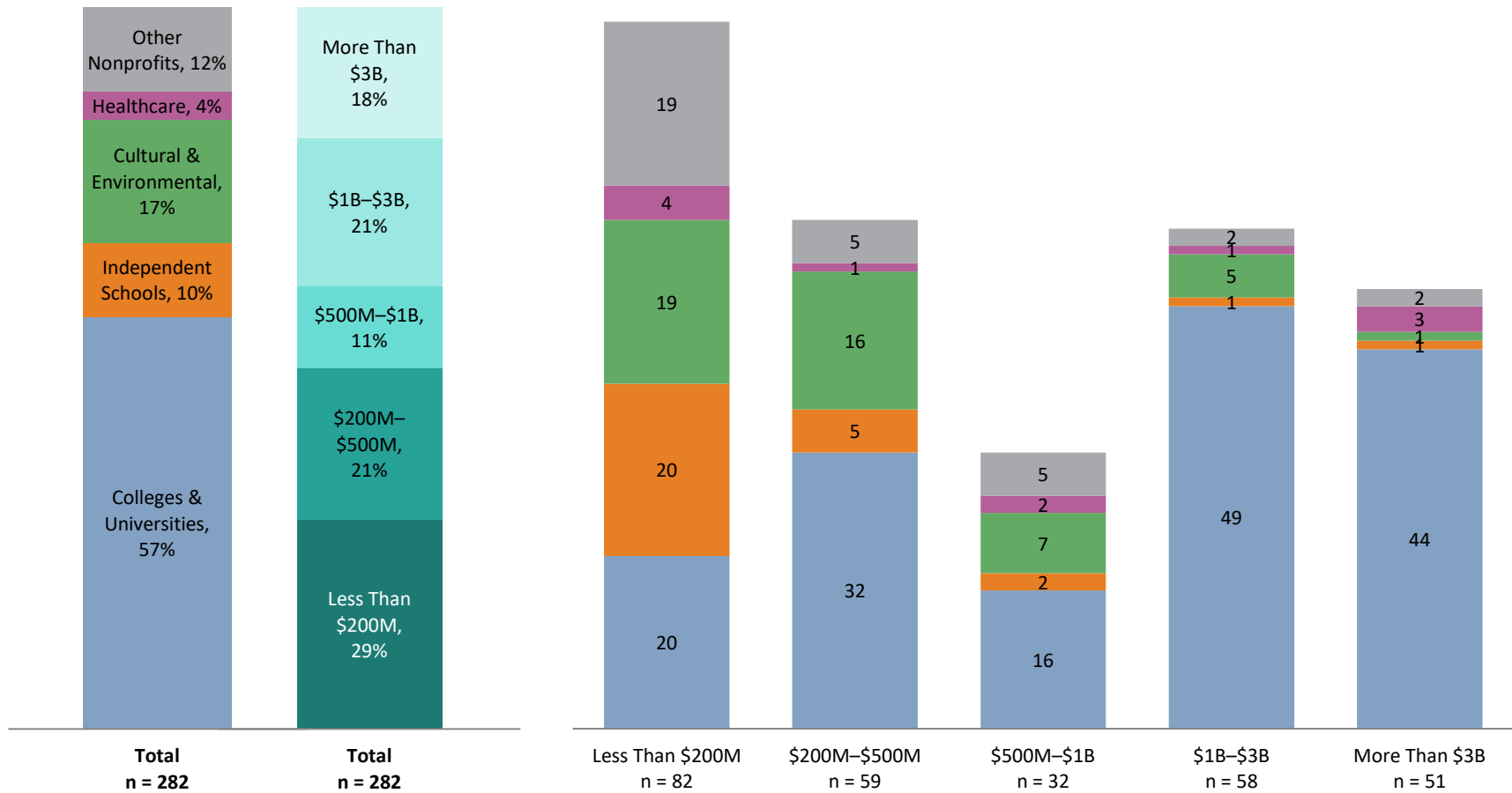
FISCAL YEAR 2023



Profile of Participating Institutions

BREAKDOWN OF RESPONDENTS BY INSTITUTION TYPE AND ASSET SIZE

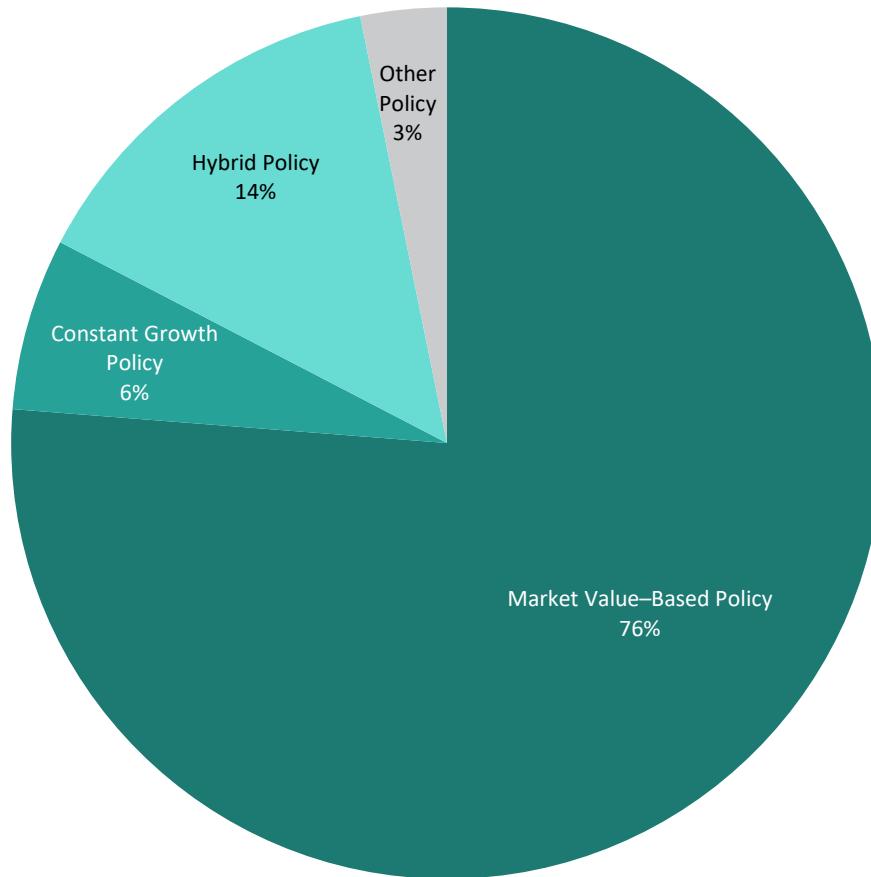
2023 • n = 282



Spending Policy Types

PERCENTAGE OF RESPONDENTS

2023 • n = 282



Institutions in this study use three primary spending rule types. **Market value-based** rules, which are 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.

Spending Policy Types by Asset Size and Institution Type

NUMBER AND PERCENTAGE OF RESPONDENTS

2023 • n = 282

By Asset Size

	Market Value-Based	Constant Growth	Hybrid	Other
Less Than \$200M	91%	—	6%	2%
<i>n</i>	75		5	2
\$200M–\$500M	83%	3%	10%	3%
<i>n</i>	49	2	6	2
\$500M–\$1B	75%	6%	19%	—
<i>n</i>	24	2	6	
\$1B–\$3B	57%	14%	22%	7%
<i>n</i>	33	8	13	4
More Than \$3B	67%	12%	20%	2%
<i>n</i>	34	6	10	1

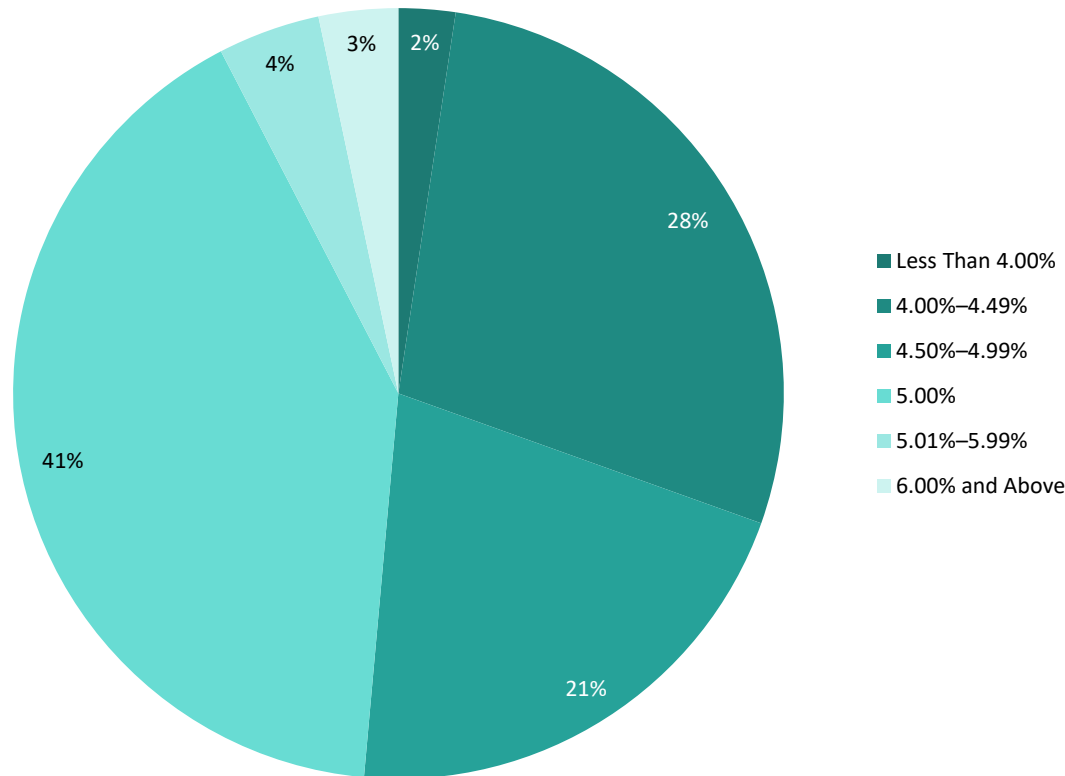
By Institution Type

	Market Value-Based	Constant Growth	Hybrid	Other
Colleges & Universities	73%	10%	15%	2%
<i>n</i>	118	16	24	3
Independent Schools	72%	3%	21%	3%
<i>n</i>	21	1	6	1
Cultural & Environmental	75%	2%	15%	8%
<i>n</i>	36	1	7	4
Healthcare	100%	—	—	—
<i>n</i>	11			
Other Nonprofits	88%	—	9%	3%
<i>n</i>	29		3	1

Market Value–Based Policies: Target Spending Rates

TARGET SPENDING RATES

2023 • n = 210



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, preserving purchasing power is a priority in 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.

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

NUMBER AND PERCENTAGE OF RESPONDENTS

2023 • n = 210

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	3%	30%	15%	45%	4%	4%
<i>n</i>	2	22	11	33	3	3
\$200M–\$500M	4%	17%	29%	35%	8%	6%
<i>n</i>	2	8	14	17	4	3
\$500M–\$1B	—	30%	22%	43%	4%	—
<i>n</i>	—	7	5	10	1	—
\$1B–\$3B	—	36%	24%	33%	3%	3%
<i>n</i>	—	12	8	11	1	1
More Than \$3B	3%	31%	19%	47%	—	—
<i>n</i>	1	10	6	15	—	—

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%	30%	22%	38%	4%	4%
<i>n</i>	2	34	25	43	5	4
Independent Schools	5%	43%	33%	19%	—	—
<i>n</i>	1	9	7	4	—	—
Cultural & Environmental	—	14%	17%	56%	11%	3%
<i>n</i>	—	5	6	20	4	1
Healthcare	—	36%	9%	45%	—	9%
<i>n</i>	—	4	1	5	—	1
Other Nonprofits	7%	24%	17%	48%	—	3%
<i>n</i>	2	7	5	14	—	1

Market Value–Based Policies: Smoothing Periods

SMOOTHING PERIODS: LENGTH OF PERIOD AND UNIT OF TIME MEASUREMENT

2023 • n = 208

	Monthly	Quarterly	Annually
Shorter Longer	12 Months or Less (n = 2)	4 Quarters (n = 2)	Single Point in Time (n = 9)
	36 Months (n = 11)	12 Quarters (n = 103)	3 Years (n = 25)
		13 Quarters (n = 6)	
		16 Quarters (n = 4)	4 Years (n = 3)
	60 Months (n = 5)	20 Quarters (n = 17)	5 Years (n = 15)
		21 Quarters (n = 1)	
		24 Quarters (n = 1)	
		28 Quarters (n = 1)	7 Years (n = 2)
		10 Years (n = 1)	

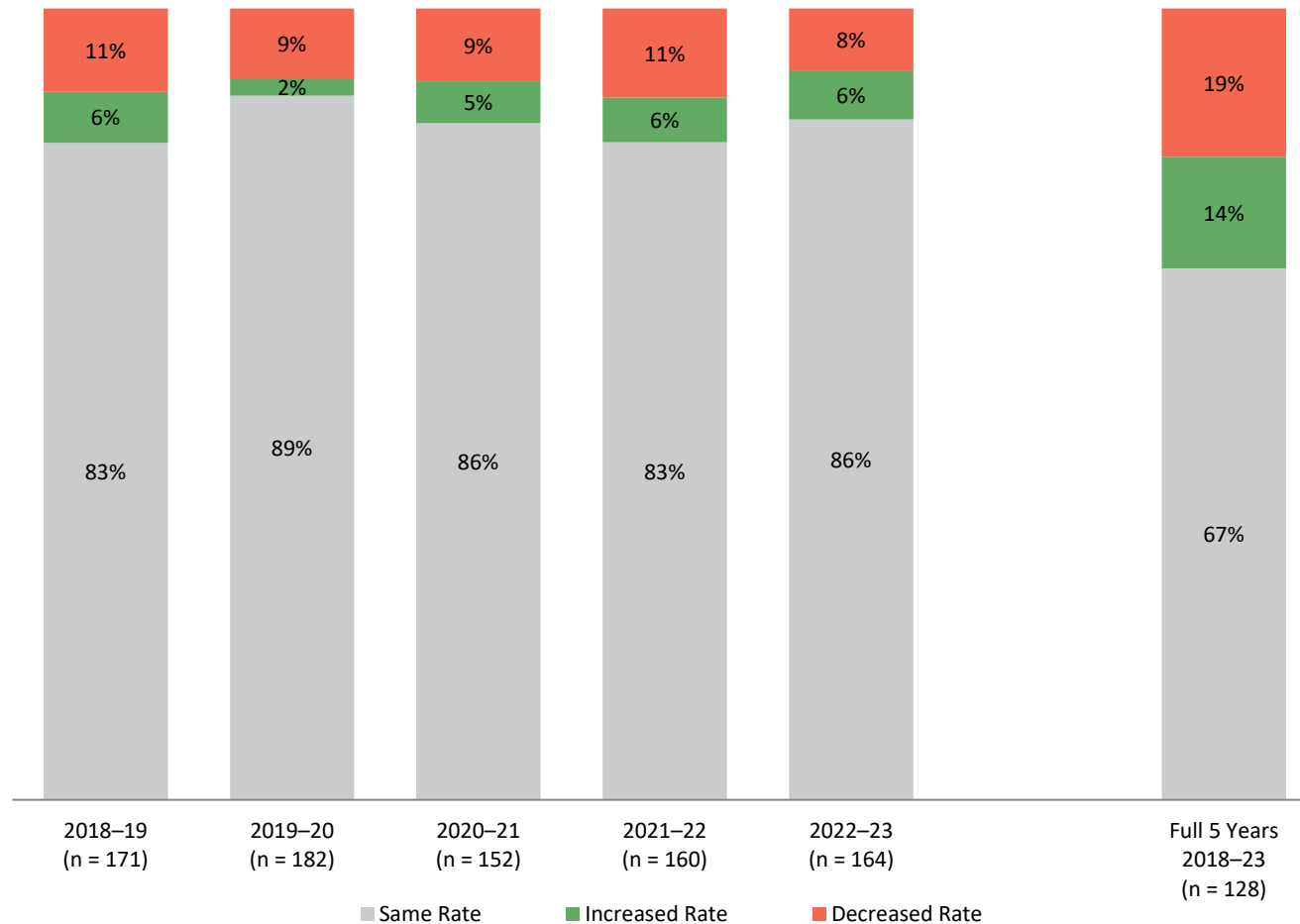
Market Value–Based Policies: Spending Policy Collars

MARKET VALUE–BASED SPENDING POLICIES

COLLARS (n = 6)	CAPS ONLY (n = 6)	FLOORS ONLY (n = 2)
<ul style="list-style-type: none"> ▪ 100%–105% of prior year's payout ▪ 102%–105% of prior year's payout ▪ 90%–107% of prior year's payout ▪ 90%–110% of prior year's payout ▪ 3.5%–6.0% of current MV ▪ 4.0%–6.0% of current MV 	<ul style="list-style-type: none"> ▪ 103% of prior year's payout ▪ 105% of prior year's payout ▪ 108% of prior year's payout ▪ 110% of prior year's payout ▪ 5.3% of current MV ▪ 6.0% of current MV 	<ul style="list-style-type: none"> ▪ 100% of prior year's payout (n = 2)

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

INSTITUTIONS CHANGING TARGET RATES IN MARKET VALUE–BASED SPENDING POLICIES

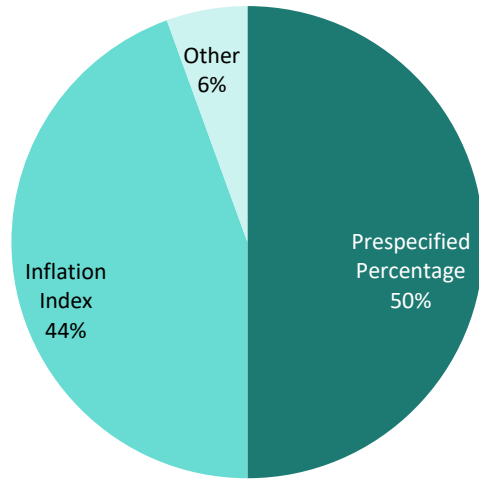


In fiscal year 2023, 86% of institutions used the same target spending rate as reported in the previous year. This is consistent with the trend we have observed over the last five years, where most institutions make no change in any given year. Over the full five-year period, nearly two-thirds of respondents maintained a consistent target spending rate.

Constant Growth Policies

GROWTH RATES USED IN CONSTANT GROWTH SPENDING POLICY CALCULATION

2023 • n = 18



Prespecified Percentage

- 5.0% (*n* = 1)
- 4.5% (*n* = 1)
- 4.0% (*n* = 1)
- 3.0% (*n* = 1)
- 2.5% (*n* = 2)
- 2.0% (*n* = 3)

Inflation Index

- CPI-U (*n* = 5)
- CPI-U, 3-yr average (*n* = 2)
- HEPI, 5-yr average (*n* = 1)

Other

- Board approves rate each year

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.

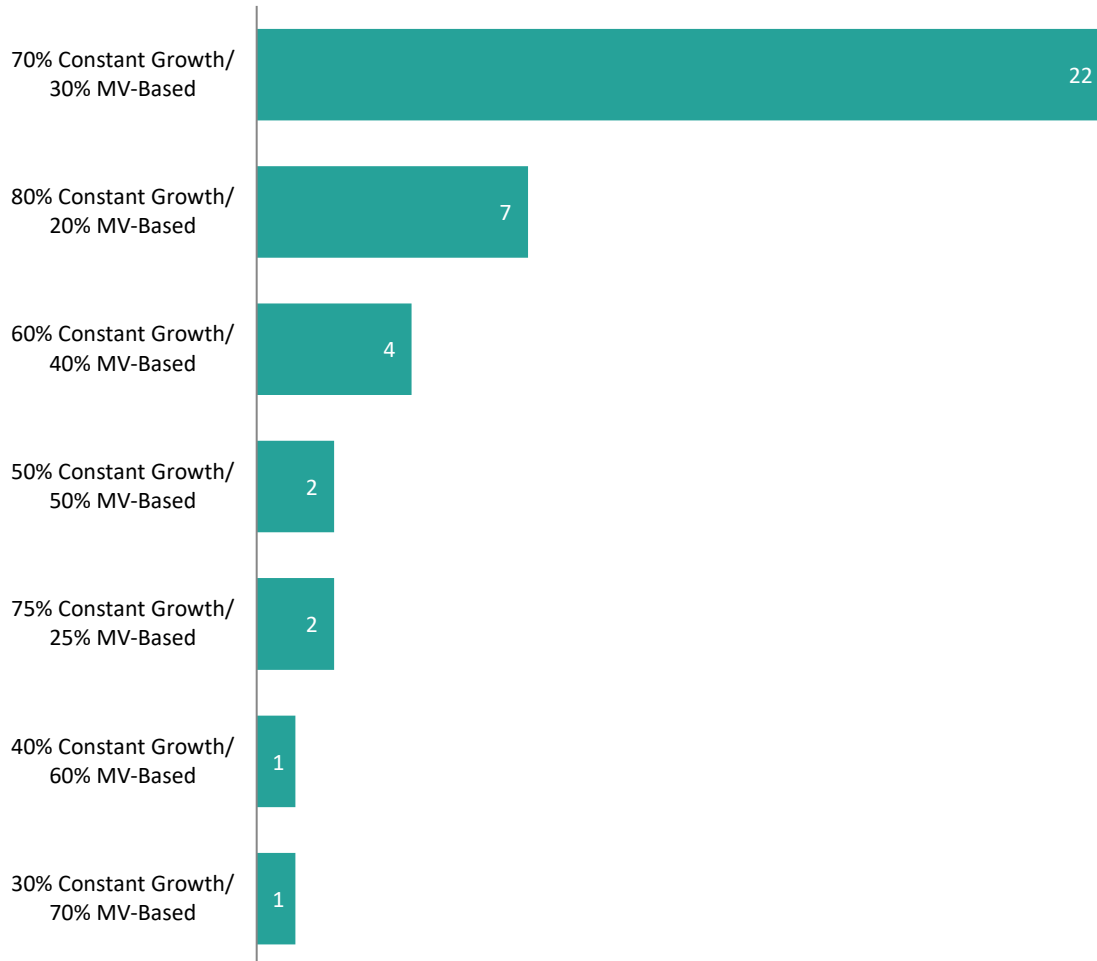
COLLARS (*n* = 15)

- | | |
|---|--------------------------------------|
| ▪ 4.5%–6.5% of 4-quarter average MV | ▪ 4.0%–6.0% of 12 quarter average MV |
| ▪ 4.5%–5.5% of 3-year average MV | ▪ 4.0%–5.0% of 12-quarter average MV |
| ▪ 4.5%–5.5% of 20-quarter average MV (<i>n</i> =2) | ▪ 4.0%–4.9% of 21-quarter average MV |
| ▪ 4.5% to 5.25% of 12-quarter average | ▪ 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 | ▪ 3.5%–5.5% of 3-year average MV |
| ▪ 4.0%–7.0% of of beginning year MV | ▪ 3.0%–5.0% of previous year's MV |
| ▪ 4.0%–6.5% of 3-year average MV | ▪ 3.0%–4.4% of 12-quarter average MV |

Hybrid Policies

HYBRID SPENDING POLICIES: WEIGHTINGS OF CONSTANT GROWTH AND MARKET VALUE-BASED COMPONENTS

2023 • n = 39

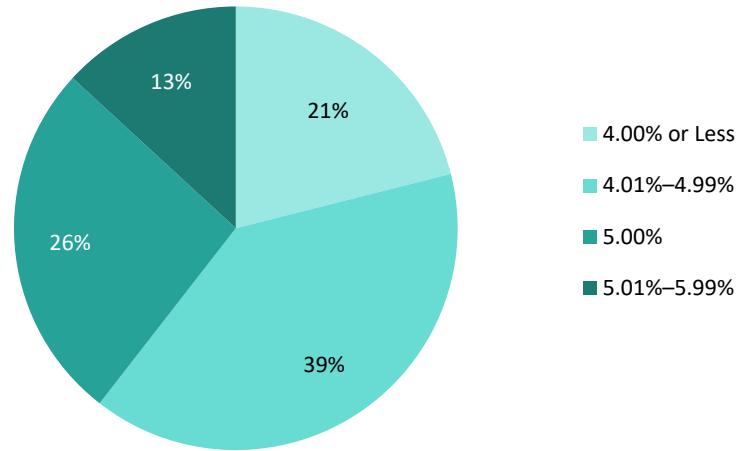


A hybrid spending policy blends the more predictable spending element of a constant growth policy with the asset preservation principle of a market value-based policy. It allows an institution to set the appropriate mix that best meets its needs. The rule is expressed as a weighted average of a constant 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.

Hybrid Policies (continued)

TARGET RATES USED IN MARKET VALUE COMPONENT

2023 • n = 38



SMOOTHING PERIODS USED IN MARKET VALUE COMPONENT

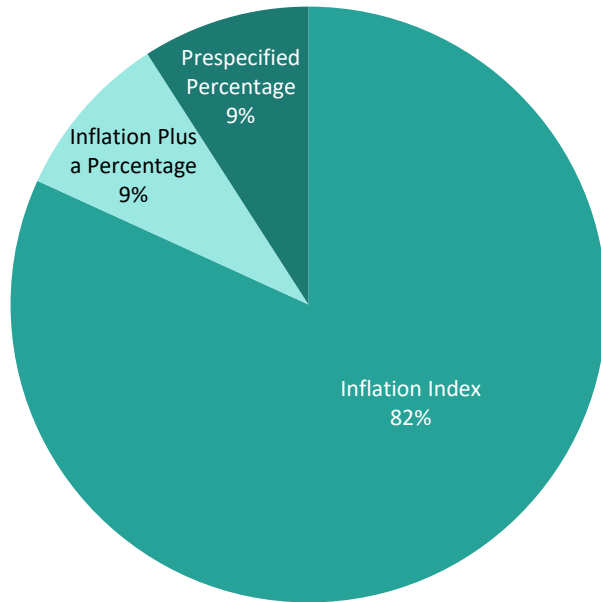
2023 • n = 39

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

Hybrid Policies (continued)

GROWTH MEASURES USED IN CONSTANT GROWTH COMPONENT

2023 • n = 33



Inflation Index

- CPI-U (*n* = 15)
- Higher Education Price Index (*n* = 12)

Inflation Index Plus a Percentage

- CPI-U + 1.0% (*n* = 3)

Prespecified Percentage

- 2.0% (*n* = 3)

COLLARS (*n* = 12)

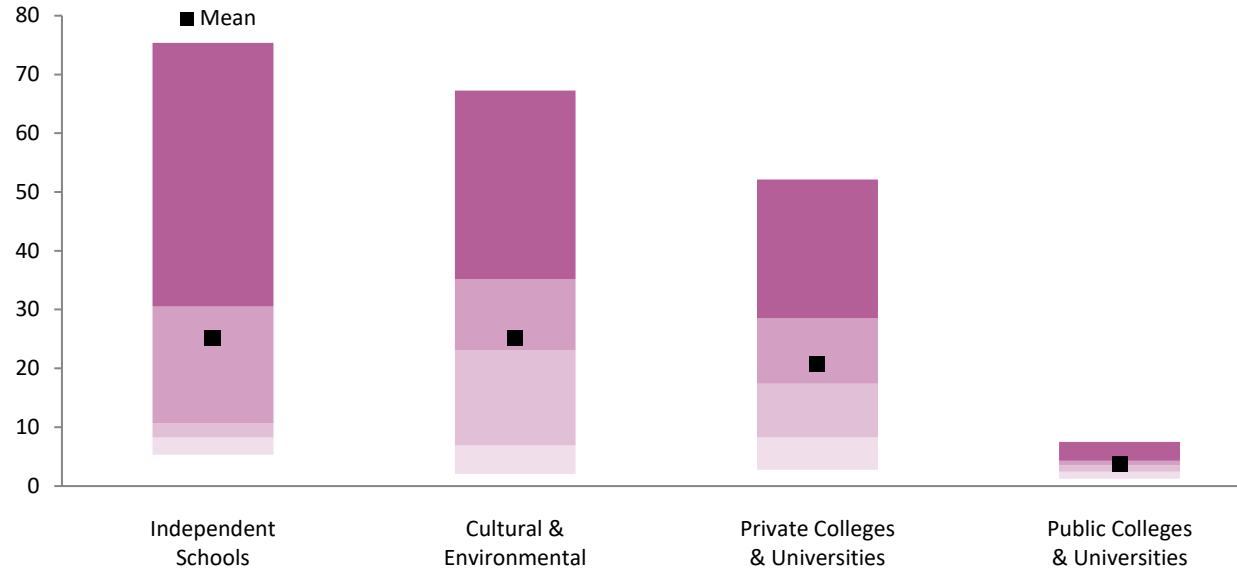
- | | |
|---|---|
| <ul style="list-style-type: none"> ▪ 3.0%–5.0% of current MV ▪ 3.5%–6.0% of prior year MV ▪ 3.75%–5.75% of prior year beginning MV ▪ 4.0%–5.5%; time period not specified ▪ 4.0%–6.0% of current MV ▪ 4.0%–6.0% of November 30 MV ▪ 4.0%–6.0% of prior year MV ▪ 4.0%–6.0% of 12-quarter average MV | <ul style="list-style-type: none"> ▪ 4.0%–6.25%; time period not specified ▪ 4.0%–6.5% of prior year beginning MV ▪ 4.5%–6.0%; time period not specified ▪ 4.75%–5.75%; time period not specified |
|---|---|

CAP ONLY (*n* = 3)

- | |
|--|
| <ul style="list-style-type: none"> ▪ 4.0%, time period not specified ▪ 4.9%, time period not specified ▪ 5.0% of five-year average MV |
|--|

Support of Operations by Institution Type

LTIP SUPPORT OF OPERATIONS AS A PERCENTAGE OF TOTAL OPERATING EXPENSES
2023

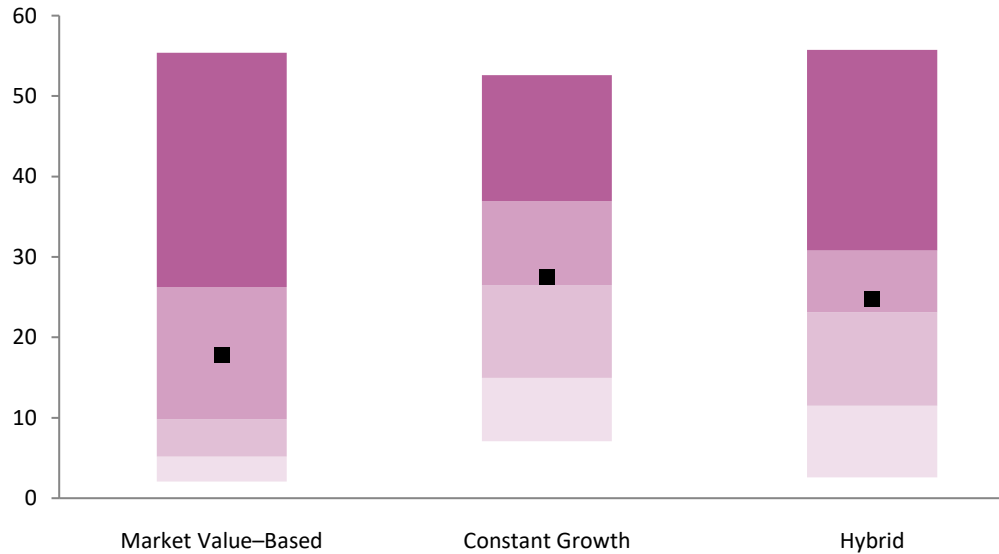


5th Percentile	75.4	67.3	52.1	7.5
25th Percentile	30.5	35.2	28.5	4.3
Median	10.7	23.1	17.4	3.5
75th Percentile	8.3	6.9	8.2	2.4
95th Percentile	5.3	2.0	2.8	1.2
Mean	25.1	25.2	20.6	3.8
<i>n</i>	12	28	82	18

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.

Support of Operations by Spending Rule Type

LTIP SUPPORT OF OPERATIONS AS A PERCENTAGE OF TOTAL OPERATING EXPENSES
2023



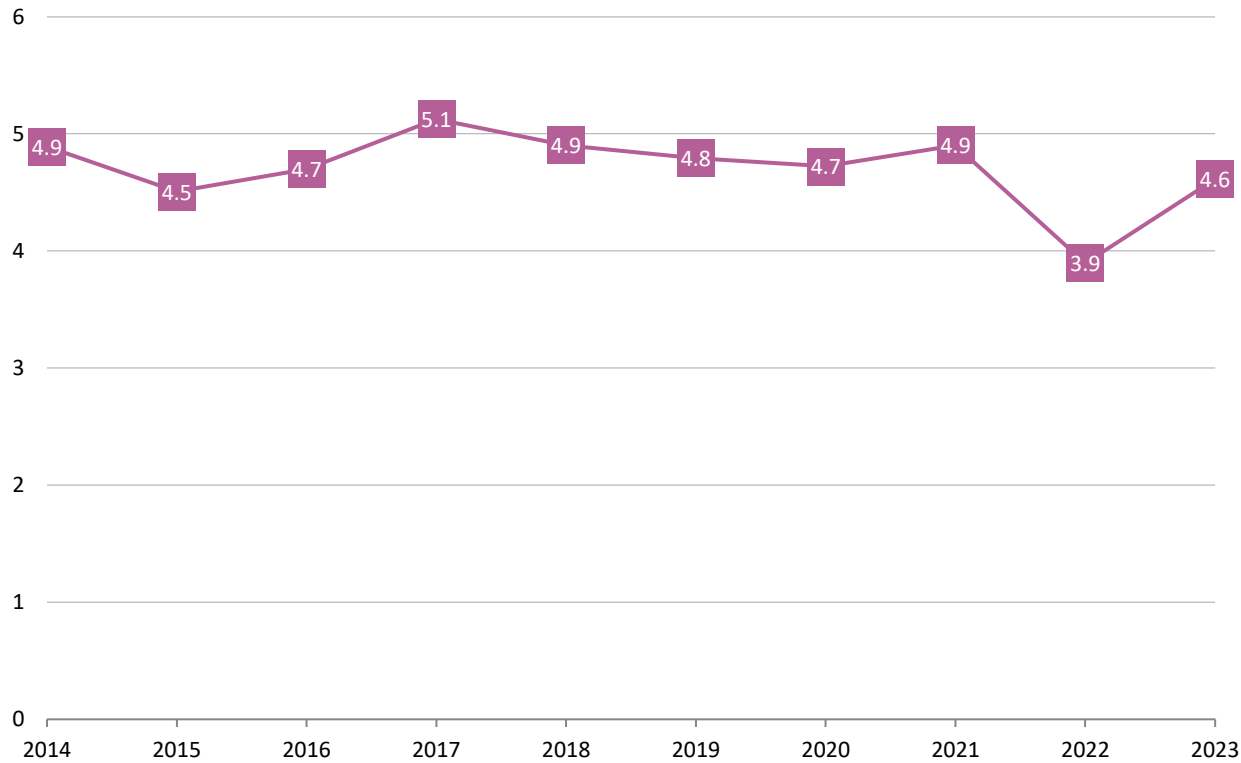
The median LTIP support ratios are highest for the subgroups of participants that have constant growth or hybrid policies. The more predictable stream of spending dollars presumably makes these rule types appealing to institutions that rely on the LTIP to fund a substantial portion of the operating budget.

5th Percentile	55.4	52.6	55.8
25th Percentile	26.3	36.9	30.8
Median	9.8	26.5	23.1
75th Percentile	5.2	15.0	11.5
95th Percentile	2.1	7.1	2.6
Mean	17.8	27.5	24.8
<i>n</i>	99	12	29

Effective Spending Rate Trends

MEAN EFFECTIVE SPENDING RATE

2014-23 • Percent (%) • n = 74



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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