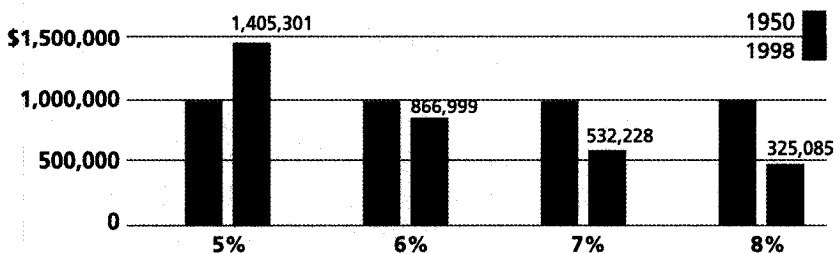




### The Impact of Spending Policies Over Time

A foundation's spending level can have a significant impact on both its current and future potential payout. Figure 1 shows that if a foundation started in 1950 with \$1 million in assets, a spending policy of 5 percent per year would result in current (1998) assets of \$1,405,301 (adjusted for taxes and assuming that investment assets were split equally between equities and fixed income). If that same foundation had spent 8 percent per year over the same period, it would have just \$325,058 in current assets.

FIGURE 1: ENDOWMENT SPENDING POLICY IMPACT  
50% Equity/50% Fixed Income\*



\*50% S&P 500 and 50% Ibbotson Intermediate Treasury. Figures are adjusted for inflation annually and run from December 1950 – December 1998. Source: Trusts & Estates, June 1999: p.16.

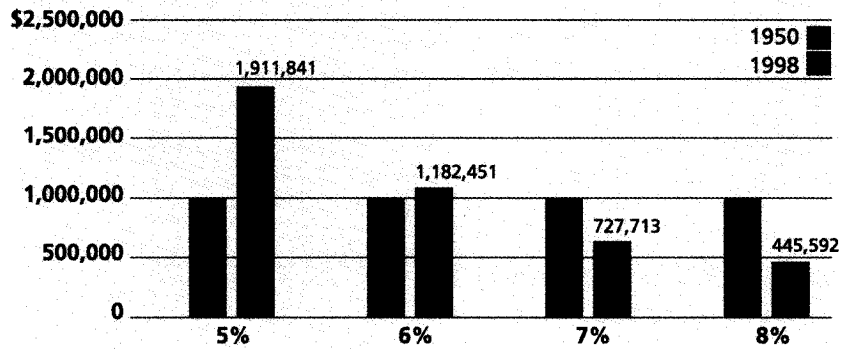
Figure 2 shows the potential impact of a high payout rate from 1950 to 1998. Although the foundation with the 8 percent payout rate would initially have a significantly larger grants budget—\$80,000 versus \$50,000 for the 5 percent payout rate—the impact of the higher spending rate would result in a lower level of investable assets over time. By 1998 the 8 percent payout foundation would have a grant payout level of \$26,005, whereas the 5 percent foundation would have a grant payout of \$70,265 (adjusted for inflation).

FIGURE 2: 1950 AND 1998 GRANT PAYOUT LEVELS

	5%	6%	7%	8%
1950	\$50,000	\$60,000	\$70,000	\$80,000
1998	\$70,265	\$52,020	\$37,256	\$26,005

Source: Trusts & Estates, June 1999: pp.16-17.

**FIGURE 3: ENDOWMENT SPENDING POLICY IMPACT**  
**60% Equity/40% Fixed Income\***



\*60% S&P 500 and 40% Ibbotson Intermediate Treasury. Figures are adjusted for inflation annually and run from December 1950 – December 1998. Source: Trusts & Estates, June 1999: p.18.

Other factors must be taken into consideration when reviewing the effect of any given spending policy. For instance, Figure 3 shows that over that same period, if the foundation or fund had invested an additional 10 percent of its assets in equities and 10 percent less in fixed income, while paying out 5 percent per year, its 1998 assets would have climbed to \$1,911,841 (versus \$1,405,301 at the 50/50 asset allocation). Perhaps an even more important factor is the specific time period looked at: an 8 percent payout level is much easier to maintain (without eroding principal of the foundation) in periods of sustained market growth, such as has been the case in the late 1990s.

The most important factor, of course, is the mission and goals of the donor and the foundation. The board must weigh their spending policy options against these goals, with the understanding that higher payout results in more dollars available for grantmaking in the short run, but is likely to result in fewer grant-making dollars in the long run.

#### CHARTING A COURSE FOR SPENDING

IRS regulations specify a minimum required annual payout only. Many family foundations regularly review their goals and the needs of their grantees to decide on the level of spending each year. “We have a unique opportunity—one that very few families are privileged to have—to make significant contributions to our communities and to make our world a better place,” says Robert N. Mayer, Ph.D., chair of the Nathan Cummings Foundation (1998 assets: \$400 million) in New York City and a third-generation family member. “With three family branches and three generations involved, we are all attempting to honor the donor who made this possible, to identify communities of interest, and to select key strategies which will maximize the impact of our grantmaking.”