

# SPENDING WISELY FROM YOUR ENDOWMENT

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Salem, Massachusetts

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*United Church Funds*

# Our Mission

*Our mission —*

## Invest responsibly. Strengthen ministry.

United Church Funds lives its mission by —

- Investing wisely to help our investors achieve their financial goals for their ministries
- Using the power of ownership to effect positive change, believing a responsibly managed company makes a better long-term investment
- Offering our investors a range of options and resources to strengthen their portfolios, their endowment management, and the ministries they value

# Spending Policy

- **Definition**  
A spending policy outlines the parameters by which funds are distributed to mission, ministry or other purposes.
- **Fiduciary risk**  
Disbursements are made in accordance with the spending policy, not the wishes of the governing committee.
- **Donor communication**  
A well written spending policy educates potential donors on how their gift will be spent.
- **Fund duration & purpose**  
Sets parameters for spending patterns and distribution uses.
- **Economic conditions & anticipated return**  
Policies must be reasonable relative to the market and consistent with the Investment Policy's anticipated return.

# Expenditure of Funds

## UMIFA (prior law)

- Historical Dollar Value allowed only net appreciation to be spent for restricted purpose
- If fund balance fell below Historical Dollar Value, nothing could be spent until the deficit was erased

## UPMIFA

- Prudent Rule requires funds be used in a prudent manner
- Subject to allowable modifications, Spending Policy is based on a percentage of a moving (or trailing) average fund balance
- While maintenance of a permanently restricted fund in perpetuity is the goal, Historical Dollar Value is no longer a benchmark

# Spending Policy & Fiduciary Risk

- Spending Policy determines how the **distribution amount** is determined, not the individual committee members. Policies may differ by fund.
- Spending Policy — not individual committee members — guides how **distributions will be directed** for unrestricted funds. Donor restrictions may apply.
- Spending Policy stipulates conditions that justify **excessive** spending for unexpected issues.

Create a document that sets the parameters for distributions,  
capture buy-in from potential donors  
and stick to the plan

# Spending Policy & Donor Communication

## ➤ **A strategic vision tool**

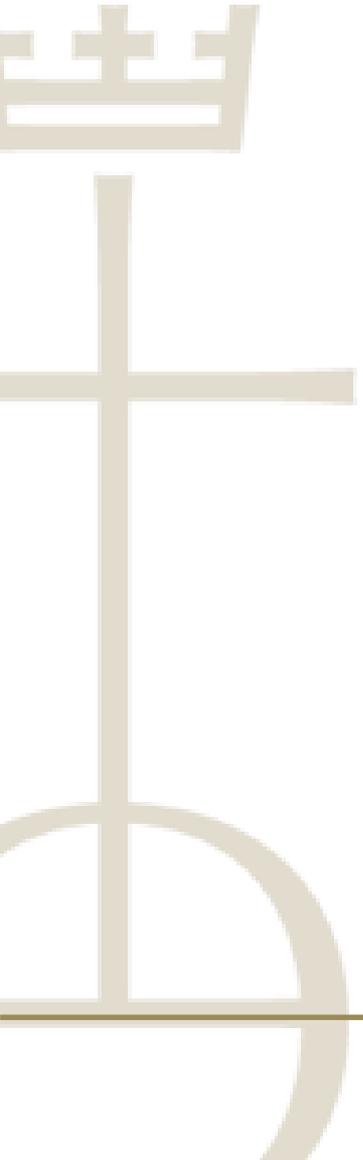
- What missions and ministries are important to your church or organization?
- How will you fund strategic initiatives for growth?
- How does your church plan for the unexpected?

## ➤ **A donor marketing tool**

- Communicate to donors about core ministry opportunities
- Set parameters for use and amount of unrestricted gifts
- Allow donors to restrict gifts at pre-determined levels

# Spending Formula Criteria

- **Consistency with Portfolio Holdings**  
Spending formula must be consistent with Investment Policy Statement — don't expect a rate of return that cannot be achieved with historical results of your portfolio.
- **Justification of Distribution Percentage**  
Spending policies must justify the anticipated distribution rate, and not rely on low distributions as a safe harbor.
- **Prudent Behavior**  
UPMIFA requires that distributions be made in a prudent manner, with all diligence of a “prudent” investor.
- **Total Return Approach**  
Example: 5% per year (or 1.25% per quarter) of a five-year trailing average of the fund.



## Questions & Answers