RHODE ISLAND
FOUNDATION

Endowments and Spending Policy

A spending policy defines the percentage of an endowment that may be spent annually.

Two key goals

- To maintain at least the real value of the endowment (i.e. original gift value plus inflation)
- To help smooth out any fluctuation in annual payouts that results from the investment markets' ups and downs.

> "Managed prudently and thoughtfully, endowments can provide support to worthwhile projects, causes, and organizations forever."

Endowments cope with the phenomenon of inflation. The $10,000 gift that began the Rhode Island Foundation in 1916 would have a fraction of the grantmaking power it has today if all its investment earnings had been awarded in grants.

The latter goal is particularly critical to organizations that project budgets based on endowment income. A down year in the stock market can be destabilizing; a great year can result in overly optimistic spending.

Spending policies can vary a little by fund type. The Foundation's spending policy percentage is applied against fund balances averaged over the preceding 16 quarters to help cushion the effect of sharp, short-term market fluctuations.

Even one percent makes a difference

The long-term effect of a spending policy is dramatic. Because any income earned over the spending policy percentage is added to the fund's principal, inflation may be combated and even exceeded. Over time, that growth potential can help beneficiaries receive more income than if they had taken out all the earnings every year.

Giving for perpetuity

Managed prudently and thoughtfully, endowments can provide support to worthwhile projects, causes, and organizations forever. A spending policy like the one instituted by the Rhode Island Foundation is the cornerstone of careful management.

Because foundation endowments are all about long-term – in fact, perpetual – the value of limiting spending to provide increasing support in the future is critical. In addition, the dollars earned above inflation in good years should counter inevitable sub-inflation investment earnings in down years.

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