Policy 2.116
Endowment Spending Distribution Policy

Responsible Official: Vice President for Finance/Chief Finance Officer
Administering Division/Department: Long-Term Investments/Endowments
Effective Date: September 01, 2011
Last Revision: October 20, 2011

Policy Sections:

I. Overview
II. Applicability
III. Policy Details
IV. Definitions
V. Related Links
VI. Contact Information
VII. Revision History

Overview

The purpose of Emory’s endowment spending policy is to establish a procedure for determining the annual flow of funds from the corpus earnings of each endowment to the operating budget and other restricted funds at the University. The primary goal is to achieve a proper balance between the present and future needs of the University. To strike an appropriate balance between these, Emory’s spending policy is to meet the following objectives:

- To ensure that the real value (i.e. purchasing power) of the revenue stream does not decline over the long term.
- To ensure that the real value (i.e. purchasing power) of the endowment assets does not decline over the long term.
- To provide current programs with a predictable and relatively stable stream of revenue.
- To reduce the lagging effects of up or down markets in the spending formula.
- To appropriate distributions with an incorporated inflation or deflation rate in the spending formula.
- To appropriate distributions with an incorporated investment manager return rate in the spending formula.

Emory University and its Board of Trustees is committed to administering and investing all endowment funds in compliance with all relevant federal and state laws and industry standards. The Board of Trustees monitors, adjusts, and approves the policy and the spending distribution on an annual basis. By maintaining the spending distribution rate within the prescribed policy over time, the institution meets current program support needs and ensures the long-term, intergenerational purchasing power of the endowment.

Applicability

All employees who administer, invest and/or steward endowed funds and communicate with external individuals and/or organizations about gifts and endowed funds.
2.116.1 Formula Overview

Emory uses a hybrid spending policy which is based on a modified Tobin spending rule. Named for James Tobin, recipient of the 1981 Nobel Prize in Economics, a Tobin spending rule sets the annual distribution for a budget year through a quantitative formula that has a “stability” factor and a “market” factor. Emory has defined its stability factor as the prior year’s spending adjusted by a growth rate which includes an inflation or deflation component. The market factor is defined as the long-term sustainable target rate/percentage distribution times a moving average of 12 months of market values of the endowment. Each factor is subject to a defined weighting for which Emory, subject to Trustee approval, can determine the pace and incorporate into the spending formula. By weighting the stability factor more heavily, Emory increases the buffering effect of market volatility. This sustains the spending rate in the face of market declines but also slows the response to market rallies. The current spending distribution formula is shown below. Over time, Emory may adjust the inputs to best fulfill its fiduciary responsibility.

\[
\text{Distribution} = 0.7 \times (\text{Distribution in Prior Year, Increased/Decreased by Growth Rate}) + 0.3 \times (4.75\% \times \text{Average 12 Month Market Value of Endowment})
\]

2.116.2 Minimum Thresholds for Distributions

Once a new endowment fund is created, no distributions for spending will be made from the endowment until 100 percent of the defined endowment threshold (See Emory Policy 3.12) is achieved through the receipt of cash, marketable securities and/or market appreciation. Until that time, all earnings are held in the corpus of the endowment. At the time 100 percent of the minimum level is achieved, funds will be distributed to the endowment's specified spending project.

2.116.3 Uniform Prudent Management of Institutional Funds Act (UPMIFA)

Emory’s policy governing distributions from the endowment is designed to be in accordance with UPMIFA as adopted by the State of Georgia. UPMIFA requires the institution to ensure the duration and preservation of the endowment fund by appropriating a prudent amount for expenditure from endowment funds within the restrictions of any gift agreements and consider the following factors:

- Duration and preservation of the endowed funds
- Purpose of the institution and the endowment fund
- General economic conditions
- Possible effect of inflation or deflation
- Expected total return from income and the appreciation of investments
- Other resources of the institution
- The investment policy of the institution

2.116.4 Underwater Endowment Distributions
Under UPMIFA, the calculation of historic dollar value has been eliminated, thus relieving the burden of restricting the income distribution when the endowment market value falls below the original gift value (underwater) and instead requires prudence to be exercised.

In December 2009, Emory’s Board of Trustees approved a more stringent condition to the distribution of income in order to define a prudent standard for appropriations from underwater endowments. If the endowment market value is less than 20% of the contribution value at fiscal yearend (August 31), it will not be eligible for an income distribution in the following fiscal year. All income distributions for the project will be reinvested back into the endowment. If a donor defines in the gift agreement that distributions should occur under the standard spending formula guidelines with no restrictions in the event of any underwater amount, the donor’s wishes will override the University restriction and the full calculated of spending amount will be distributed.

**2.116.5 Infrastructure Charge**

A portion of the annual spending distribution on unrestricted endowments is used for facilities matching for academic buildings. For restricted endowments, this portion of the distribution is used for indirect administrative costs associated with the programs and activities supported by these endowments.

**2.116.6 Use of Funds Responsibility**

Each School or Department may spend the annual Trustee-approved endowment spending distribution in accordance with the gift agreement for each endowment and is responsible for compliance with the stated terms and use of funds from each endowment. An endowment spending project is established to receive endowment distributions generated from a specific endowment. If the usage is restricted (example - for a specific department chair salary), the qualifying expenditures must be charged directly to the spending project as no transfer of funds into a general operating account is allowed. All distributions within an expendable fund must be used in accordance with the specific intent of the donor(s) set forth in the gift agreement governing that endowment. Endowments governed by gift agreements with unrestricted purposes may be distributed as defined by the Dean or Vice President of the assigned unit. Endowments governed by gift agreements with unrestricted purposes for the broader University will be distributed as defined by the University President or his/her designees.

**2.116.7 Policy Exceptions**

All gift agreements are required to adhere to the spending policy standards provided in this policy document. Deviations from these standards elevate the potential for failing to adhere to donor stipulations, could cause increased administrative costs for managing the endowment distributions, and could negatively impact other unitized projects. Therefore, any deviations to the terms within this policy must be approved by Emory’s Gift Acceptance Committee (see Policy 3.7 - Policy and Procedures for Gift Acceptance) prior to accepting the modified gift agreement terms.

**Definitions**

- **Endowment Pool:** A commingled, unitized fund maintained for investment purposes in which the endowment project purchases units. The Pool is managed on a total return basis and both income and a portion of the appreciation in market value may be distributed from the participating endowment on a periodic basis.

- **Endowment Spending:** Amounts distributed from endowments based on endowment spending rule adopted by Board of Trustees.

- **Historical Dollar Value:** The corpus or total amount of gifts and donor stipulated reinvestment to an endowment. This is also known as the contribution value.

- **Net appreciation:** Market value and reinvested income, net of fees, in excess of the corpus.

- **Underwater Endowments:** Endowments for which Market Value is less than Historical Dollar Value

- **Permanent or True Endowment:** Endowment funds are funds received from a donor with the restriction that the principal not be expendable. These endowments are subject to modification only as may be allowed by law and Emory University regulations.

- **Quasi-Endowment:** A quasi-endowment fund is a fund established by the governing board to function like an endowment fund but which may be totally expended at any time at the discretion of the governing board. This may be gift funds that the donor did not specifically direct for use as an endowment or funds available to the institution from
other sources that have been designated for an endowment. The funds are invested in the same manner as a true endowment and have the same payout provisions

Related Links

- Current Version of This Policy: [http://policies.emory.edu/2.116](http://policies.emory.edu/2.116)
- Policy 3.12 - Policy and Procedures for Naming Opportunities and Endowed Funds ([http://policies.emory.edu/3.12](http://policies.emory.edu/3.12))
- Policy 3.9 - Gift Agreements ([http://policies.emory.edu/3.9](http://policies.emory.edu/3.9))

Contact Information

<table>
<thead>
<tr>
<th>Subject</th>
<th>Contact</th>
<th>Phone</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Spending Distribution Policy</td>
<td>Belva White</td>
<td>404-727-6080</td>
<td><a href="mailto:belva.white@emory.edu">belva.white@emory.edu</a></td>
</tr>
</tbody>
</table>

Revision History

No previous versions of this policy were found.

*Emory University policies are subject to change at any time. If you are reading this policy in paper or PDF format, you are strongly encouraged to visit policies.emory.edu to ensure that you are relying on the current version.*