



## Spending Policy

Guided by its mission and a regulatory framework for endowments, the Foundation's top priority is to assure sufficient financial resources to sustain the Jewish community of today and tomorrow.

### Why the Spending Policy Exists

The spending policy determines the spending rate, or more plainly, how much the Foundation grants/distributes annually out of most every endowment fund it owns. This rate is designed to balance the competing requirements of any endowment fund to maximize current grant dollars available, while protecting the principal in perpetuity. To smooth out the fluctuations of markets and ensure more consistency in the grant dollars available to spend, this policy is calculated using an average of the fund balances of 20 previous quarters.

The spending policy is structured so that, in times of economic downturns, the Foundation is able to provide relatively consistent funding to the community, especially when it needs it most, while protecting the long-term needs of an endowment (by setting a ceiling and floor to the spending policy). The spending policy calculation is complex, but it exists to allow all of us time to plan, adapt and protect our long-term needs as well.

### Current Spending Policy

The spending policy for endowment funds currently is 5 percent of the previous 20 quarters' average of year-end fund balances, subject to a floor of 4 percent of the year-end fund balance, and a ceiling of 5.5 percent of the year-end fund balance.

The floor and ceiling are determined using the fund balances as of June 30 of the previous fiscal year to provide a check against significant changes in the total assets reflected in the June 30 ending balance. For example, if the spending policy is higher than the floor and lower than the ceiling, the spending policy is used. If in any year the spending policy calculation is lower than the floor, then the floor is used. Or, if the spending policy is higher than the ceiling, then the ceiling is used.

### Example 1: Stable Fund Balance

Assume a fund has a \$10,000 balance over 20 quarters:

Baseline spending policy calculation:

The average fund balance over the previous 20 quarters (five years):	\$10,000.00
Spending Policy (\$10,000 * 0.05)	\$500.00
Fund amount available for spending	\$500.00

*(continued on reverse)*



**Spending Policy** *(continued)*

**Example 2: When a Fund Balance Increases**

Assume a fund has a \$10,000 balance over 19 quarters and, in the last quarter, \$5,000 had been added to the fund. The calculations would be as follows:

Baseline spending policy calculation:

The average fund balance over the previous 20 quarters (five years):	\$10,250.00
Spending Policy (\$10,250 * 0.05)	\$512.50

Floor calculation:

Balance as of 6/30	\$15,000.00
Floor Calculation (\$15,000 * 0.04)	\$600.00

Ceiling calculation:

Balance as of 6/30	\$15,000.00
Ceiling Calculation (\$15,000 * 0.055)	\$825.00
Fund amount available for spending	\$600.00

**Example 3: When a Fund Balance Decreases**

Assume a fund has a \$10,000 over 19 quarters, and in the last quarter, \$5,000 had been distributed from the fund. The calculations would be as follows:

Baseline spending policy calculation:

The average fund balance over the previous 20 quarters (five years):	\$9,750.00
Spending Policy (\$9,750 * 0.05)	\$487.50

Floor calculation:

Balance as of 6/30	\$5,000.00
Floor Calculation (\$5,000 * 0.04)	\$200.00

Ceiling calculation:

Balance as of 6/30	\$5,000.00
Ceiling Calculation (\$5,000 * 0.055)	\$275.00
Fund amount available for spending	\$275.00

\*Please note: Spending policy determinations are separate from administrative fees. Administrative fees are calculated each month based on the average daily value of the fund’s assets, and are directly charged to each fund each month. Some might say: spending policy is 5%, from which the administrative fee of 1% is also taken, therefore the average grant is 4%. While this is a generally acceptable approximation, this oversimplification does not accurately describe the calculations or the nuances involved in each process.

For more information, please contact Kathryn Gonnerman, Vice President of Philanthropy, at 413-475-0415 or [kgonnerman@jcfhartford.org](mailto:kgonnerman@jcfhartford.org).