## SPENDING POLICY METHODOLOGIES WORKSHEET



## FORMULAS

- **MOVING AVERAGE** (spend a fixed percentage of the average market value over a set time period) Spending Rate<sub>t</sub> x [ (Ending market value<sub>t-1</sub> + Ending market value<sub>t-2</sub> + Ending market value<sub>t-3</sub>...) / Time Period ] = Spending<sub>t</sub>
- **CONSTANT GROWTH** (increase spending each year by a constant growth rate or inflation) Spending<sub>t-1</sub> x (1 + Consumer Price Index<sub>YoY % change</sub>) = Spending<sub>t</sub>
- **WITH BANDS** (spending is contained within a range of +/- a percentage of previous year's market value) If Spending is < Floor, Spending = Floor; If Spending is > Cap, Spending = Cap
- **GEOMETRIC** (weight given to inflation adjusted spending and target spending of market value) Smoothing Rate x [Spending<sub>t-1</sub> x (1 + Consumer Price Index<sub>YoY % change</sub>)] + (1- Smoothing Rate) x (Target Spending Rate x Ending Market Value<sub>t-1</sub>) = Spending<sub>t</sub>
- HYBRID (custom combination of spending rules to meet the specific needs of an institution)

t: time; YoY: Year-over-Year

## REFERENCES

- (A)
   2016 Spending<sub>t-1</sub>(\$):
   (B)
   Target Spending Rate:
   %
- (C)
   2017 Budgeted Spending:
   (D)
   Smoothing Rate:
   0.7 (or 70%) is common

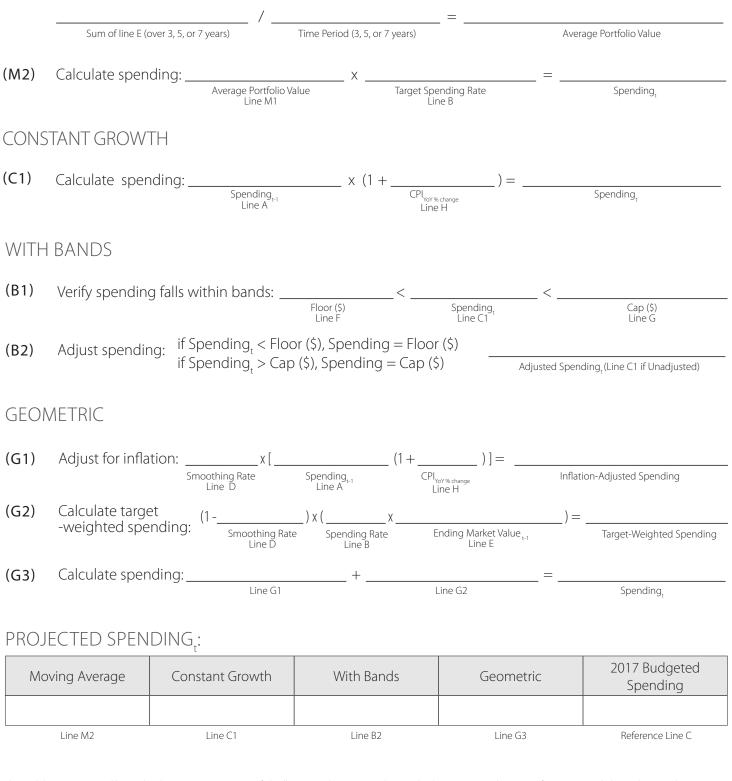
   Weight given to inflation adjusted spending

(E)	Portfolio Ending Market Value:	2016 (t-1)	2015 (t-2)	2014 (t-3)	2013 (t-4)
		2012 (t-5)	2011 (t-6)	2010 (t-7)	
(F)	Spending not to c	drop below (floor):	% X = Ending Market Value,_1		= Spending Floor (\$)
(G)	Spending not to exceed (cap):		% x	Line E	=
( )	op en an ig not to t			nding Market Value <sub>t-1</sub> Line E	Spending Cap (\$)
(H)	Core Consumer Price Index (CPI) <sub>YoY % change</sub>		0.021 (or 2.1%) <sup>1</sup>		
<sup>1</sup> Bureau	ı of Labor Statistics; As of Dece	mber 31, 2015			

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## MOVING AVERAGE

(M1) Calculate the average portfolio value over specified time period:



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