## 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

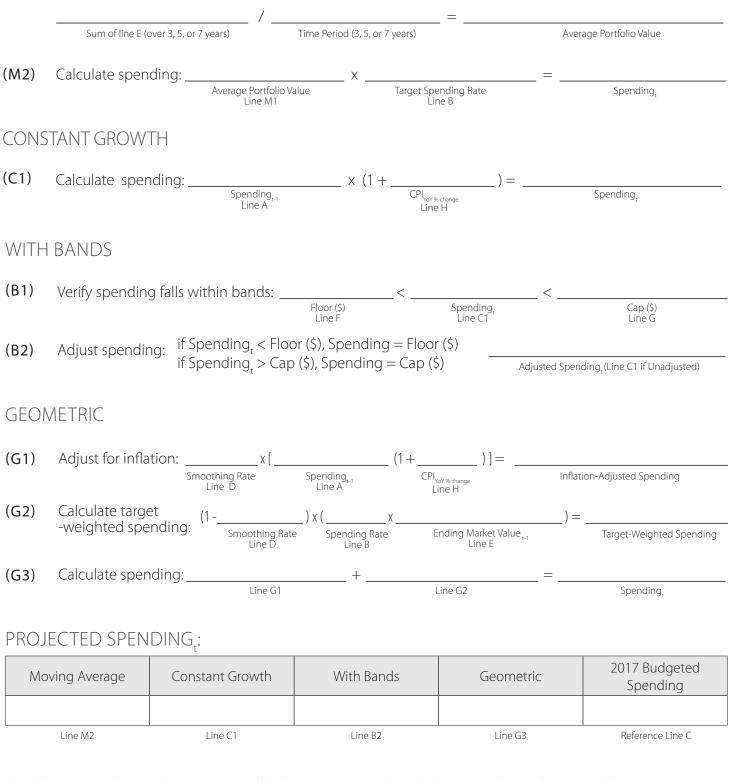
   Weight given to inflation adjusted spending

| (E)                 | Portfolio Ending<br>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 |   | =<br>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><br>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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