New Covenant Trust Company

Total Return Spending Formula Strategy

Many non-profit organizations such as PC(USA) congregations develop a spending formula strategy when budgeting. Understanding the budgeting needs of the Church is critical to determining an appropriate asset allocation and spending formula. When considering implementing a spending formula strategy, it is encouraged to be very disciplined in holding to a sustainable spending formula rate. While some flexibility is allowable, it is important to resist the urge to increase the spend rate following a good year in the market or for an unforeseen capital project. At the same time, it is important to continue to fund the Church's needs during challenging market environments. This strategy is intended to enable the Church to remain disciplined throughout up and down markets. Any deviation from the spend rate should be communicated in advance to allow us to assist you with spending down the account in the most sustainable way possible. Below is a summary of how a spending formula strategy could be structured.

- Establish a spend rate that is sustainable over a full market cycle. Currently the PC(U.S.A.) Foundation spend rate is 4.25% but lowering to 4% over the next 5 years.
- Keep in mind any spending rate selected should allow for an average inflation rate of 2% average inflation and an advisor fee of 1% as general guides.
- Spending formula theory is based upon taking a 12, 16, or 20 quarter rolling average of the fair market account value, which equals a 3, 4, or 5-year period. Using a rolling average helps smooth the spending calculations year over year in a volatile market environment.
- Many of the churches and non-profit entities we serve have implemented the traditional total return spending formula strategy which suggests pairing some type of a balanced growth (60/40) asset allocation with an annual spending rate of approximately 4%.
- If additional funds are needed (or not needed) on an on-going basis, it is important to strongly consider adjusting the asset allocation and spending rate to support these changes.
- Payment disbursement methods can be achieved many ways. Some examples using a spending rate of 4% are:
    1. Quarterly with 1% being paid each quarter based upon prior years ending account market value average (12 or 20 quarter average)
    2. Semi-annually with 2% being paid twice a year calculated the same as above
    3. Annually with 4% paid once a year calculated the same as item 1

We can provide historical performance information over a variety of time periods/market cycles using any number of asset allocation options and spending strategies.