Spending Policy

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The spending rule is at the heart of fiscal discipline for an endowed institution. Spending policies define an institution's compromise between the conflicting goals of providing substantial support for current operations and preserving purchasing power of Endowment assets. The spending rule must be clearly defined and consistently applied for the concept of budget balance to have meaning.

The Endowment spending policy, which allocates Endowment earnings to operations, balances the competing objectives of providing a stable flow of income to the operating budget and protecting the real value of the Endowment over time. The spending policy manages the trade-off between these two objectives by using a long-term spending rate target combined with a smoothing rule, which adjusts spending in any given year gradually in response to changes in Endowment market value.

The target spending rate approved by the Yale Corporation currently stands at 5.25 percent. According to the smoothing rule, Endowment spending in a given year sums to 80 percent of the previous year's spending and 20 percent of the targeted long-term spending rate applied to the market value two years prior. The spending amount determined by the formula is adjusted for inflation and constrained so that the calculated rate is at least 4.5 percent, and not more than 6.0 percent of the Endowment's inflation-adjusted market value one year prior. The smoothing rule and the diversified nature of the Endowment mitigate the impact of short-term market volatility on the flow of funds to support Yale's operations.

Spending Growth Surpasses Inflation 1950–2008