So, You Are Considering Changing Your Spend Rate

Executive Summary

- An institution may consider changing its spend rate for various reasons, such as facing financial challenges and wanting to increase budgetary support or experiencing financial success and aiming to grow the endowment more quickly.
- When considering a change in spend rate, it is important to understand how it affects the endowment's future purchasing power and budgetary support.
- Spend rates require careful balance: they cannot be so low that the institution lacks support, nor so high that maintaining inflation-adjusted principal becomes challenging, as the endowment must earn a return to offset spending plus inflation.
- Two main trade-offs to consider when changing spend rates:
    - **Timing of value**: Higher spending today versus more spending dollars in the future due to asset compounding over time
    - **Impact to endowment strategy**: Rate changes may require adjustments to target return requirements, risk level, and asset allocation

The Decision Framework

Whether driven by financial pressures or strategic opportunity, spend rate adjustments represent one of the most significant decisions an endowment can make. The process requires careful analysis of both quantitative impacts and qualitative institutional factors. As a reminder, spend rate is the percent an institution withdraws from its endowment on an annual basis. Please refer to our Spend Policy 101 for a foundational overview.

Balancing Mission Support and Purchasing Power

At its core, spend rate decisions involve balancing competing institutional priorities. These dual endowment goals—supporting today's mission while preserving tomorrow's purchasing power—create a natural tension that requires careful balance. Rates too low fail to adequately support institutional needs, while rates too high make it challenging to maintain

real value over time.

Key Trade-offs in Changing the Rate

Timing of the Value

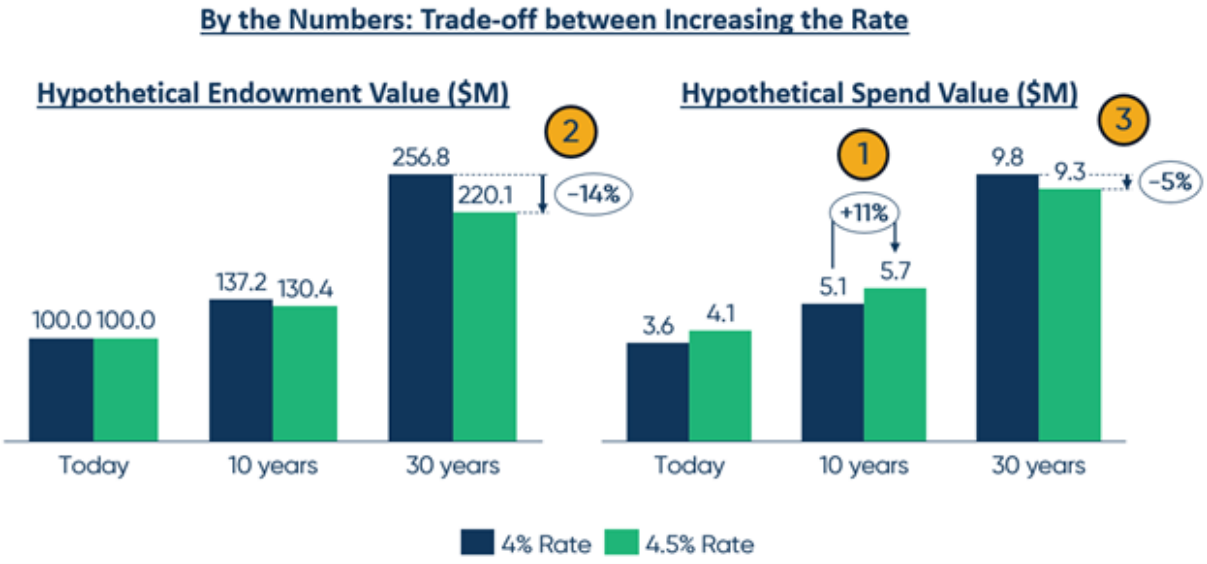
A key consideration in determining if a rate change is appropriate is identifying when the institution would benefit most from its endowment funds.

For example, funds left in the endowment will grow and compound creating a larger spend in the future, while funds taken from the endowment will provide an immediate budget impact today.

Case Study

The example below highlights the trade-off in a $100M endowment of raising a 3-year trailing average spend of 4% to 4.5%. The numbered commentary corresponds to the charts that follow.

1. There is an immediate impact on spend to support the budget, which continues for several years.
2. However, all else being equal, this larger spend reduces the size of the endowment.
3. At a certain point, the spend to the institution is now less at 4.5% than 4%, because the endowment size has been reduced over time.



Source: TIFF analysis; assumes 3-year annual trailing spend methodology and a 7% annualized return.

Factors to Consider

When having these discussions, pairing quantitative analysis with collaborative discussion is important. Here are some key factors worth considering:

- **Value of the change:** Consider the net present value of the marginal budget support
    - For rate increases, determine whether they support long-term value or address one-time, short-term uses
- **Duration of spend rate change:** Spend rate changes are not permanent and can be changed again in the future
- **Spend methodology:** How the institution calculates the spend will impact the trade-offs
- **Endowment portfolio construction:** Consider target returns, long-term expected real returns excluding spend, and risk level
- **Inflation expectations:** These impact target returns as well as budget and potentially spend methodology
- **Institutional factors:** Evaluate current and future funding requirements, and the organization's broader financial situation (revenue sources and stability, debt, etc.)
- **Industry trends/perspective:** Peer comparisons on both endowment and institutional factors exist to help contextualize each institution's circumstances

Potential Impacts to the Endowment from Changing the Rate

Changing the rate can also have implications for the endowment, either providing more flexibility to grow or creating challenges to maintain principal. Most institutions maintain their investment strategy when lowering the rate, hoping to compound assets faster and build the endowment's asset base for the future. The challenge arises when an institution increases its spend rate: can it adjust its risk or asset allocation enough to maintain the inflation-adjusted corpus?

Potential Endowment Implications	Implied Target Return Requirement	Risk	Asset Allocation
Raising the rate	Higher	May need to increase to achieve higher target return	May allocate to more risk assets, or higher returning asset classes (e.g., private equity)
Lowering the rate	Lower	Could lower risk	May allocate to more diversifying assets, or lower expected return asset classes (e.g., fixed income)

Conclusion

Changing an institution's spend rate requires careful consideration, input from a multitude of stakeholders, and thorough analysis of both qualitative and quantitative trade-offs. It is not a decision to be made without robust dialogue with key constituents. If your institution is considering a change to your spend rate, TIFF is ready to help navigate the various considerations and determine the right path for your institution.

Past performance is no guarantee of future results and the opinions presented cannot be viewed as an indicator of future performance. There is no guarantee that any particular asset allocation or mix of strategies will meet your investment objectives.

The materials are being provided for informational purposes only and constitute neither an offer to sell nor a solicitation of an offer to buy securities. These materials also do not constitute investment, legal or tax advice. Opinions expressed herein are those of TIFF and are not a recommendation to buy or sell any securities.

These materials may contain forward-looking statements relating to future events. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms or other comparable terminology. Although TIFF believes the expectations reflected in the forward-looking statements are reasonable, future results cannot be guaranteed.

TIFF Investment Management



July 17, 2025

Copyright © 2026 TIFF Advisory Services, LLC. All rights reserved. May not be reproduced or distributed without permission.