FREQUENTLY ASKED QUESTIONS

WHAT IS AN ENDOWMENT? WHAT IS AN ENDOWED FUND?

Endowment refers to assets that are permanently restricted and are invested for the long term, unlike expendable funds which are typically used for immediate needs. Currently, Pacific donors have established more than 850 endowment funds for scholarships, professorships, academic programs, athletics, and other purposes. When a donor creates an endowed fund, the gift “buys shares” in Pacific’s Endowment Pool, which operate similar to a mutual fund. Each endowment is used in accordance with the donor's wishes and distributes a portion of earnings each year.

WHAT IS THE STRENGTH OF PACIFIC'S ENDOWMENT?

As of June 30, 2012 (the end of Pacific’s fiscal year), the value of the endowment was more than $200 million. In comparison to our peer institutions, Pacific is actually under-endowed relative to the size and scope of its programs and is actively seeking to grow its endowment in order to secure Pacific’s future.

HOW LARGE IS THE ENDOWMENT RELATIVE TO PACIFIC'S EXPENSES?

In fiscal year 2012, endowment income covered less than 5 percent of Pacific’s operating expenses. Pacific must generate two-thirds of its operating budget—more than $200 million every year—from student tuition and gifts from Regents, alumni, parents, and friends.

One of the most important challenges Pacific faces is to address the imbalance between the University’s endowment resources and the remarkable breadth of its academic and research programs. To that end, one of Pacific's primary goals is to increase the proportion of operating budget funded by endowment income, thus providing a permanent source of funding for academic programs and financial aid.

HOW DOES PACIFIC MANAGE ITS ENDOWMENT?

The endowment is managed by the Board of Regent’s Investment Committee in accordance with investment policies. The endowment is invested for growth to provide a reliable stream of revenue to augment the University’s budget in perpetuity. The Committee works with the staff of the business and finance division, as well as an investment consultant to ensure that investments are providing the income stream needed to support programs while continuing to grow the principal of the endowment pool.
HOW MUCH OF THE ENDOWMENT DOES PACIFIC SPEND ANNUALLY?

Each year, the Board of Regents approves the rate of spending distribution for the endowment which determines the amount of income and appreciation that flows to Pacific's budget. The spending distribution is currently 4.25% of the endowment’s three year rolling average of the market value at December 31st for distribution the following fiscal year.

HOW DOES MARKET VOLATILITY AFFECT PACIFIC'S ENDOWMENT SPENDING DISTRIBUTION?

Pacific invests for the long-term and protects the budget from year-to-year volatility in stocks and other financial markets. It does so in several ways. First, the University manages risk by diversifying investments. Second, Pacific’s spending distribution is based on a three year average market balance, which is based on the actual performance. Third, the Investment Committee regularly monitors performance, and makes adjustments as needed. Finally, the spending distribution has been being reduced gradually over time, with the goal to have it be 4.0% in FY14.

WHAT INVESTMENT IS REQUIRED TO ESTABLISH AN ENDOWED FUND AT PACIFIC?

The amount required to establish an endowed fund varies depending on the fund’s purpose. For example, endowed professorships may be endowed with a gift of $1 million or more, while scholarship funds may be created at various recognition levels starting at $50,000.

WHAT IS THE SPENDING DISTRIBUTION?

Endowment spending represents the amount distributed from Pacific’s endowed funds that is made available to support the funds’ designated purposes. The policies that guide annual spending amounts are designed to provide a stable flow of income while protecting the real value of the endowment fund over time.

HOW IS THE SPENDING DISTRIBUTION DETERMINED EACH YEAR?

The Board of Regents’ policy is based upon the average market value as of December 31 for the past three fiscal years times the spending distribution rate factor, which is presently at 4.25%. If an endowment has existed for less than three years, the market value for the purposes of applying the spending rate shall be the average of the year end values since that endowment was established.

WHY DOESN'T PACIFIC SPEND MORE OF ITS ENDOWMENT?

The investment returns vary from year to year, and Pacific must base its spending distribution on a long-term expected total rate of return if it is to guarantee support for activities in perpetuity. To do this, Pacific must retain a portion of each endowment fund’s purchasing power to keep pace with inflation, as well as increased costs associated with Pacific’s program’s growth.