UNIVERSITY of ALASKA FOUNDATION

For Immediate Release
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Uniform Prudent Management of Institutional Funds Act

The Alaska State Legislature enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in 2010. This new law will positively affect how the University of Alaska Foundation administers endowments. Alaska joined 46 other UPMIFA states when the Legislature adopted this act.

UPMIFA provides the foundation, and other Alaska charities, with guidance on how to administer endowments and charitable funds. First and foremost, donor intent, as outlined by donors in endowment and fund agreements, will always take precedence on how endowed funds are administered.

Maintaining an endowment in perpetuity is a core principle of endowment management. This fiduciary duty is one the Board of Trustees takes seriously. UPMIFA provides the board the flexibility to make distributions that are prudent in light of the fund's purposes, maintain the fund's viability in perpetuity and provide for inflation on future distributions. UPMIFA also provides the board with clarity on how prudence shall be determined.

The foundation will adjust how it administers endowments to balance current and future beneficiaries' interests. The new process, effective July 1, 2011, seeks to maintain the long-term purchasing power of endowments, stabilize distributions and provide for inflation-proofing. The new administrative process will allow distributions from many endowments, which, prior to UPMIFA, would not have received a spending distribution.

To better assess the financial health of the endowments, a viability ratio (accumulated earnings ÷ total value of the endowment) will be calculated for each endowment. A high viability ratio indicates good financial health; a negative ratio indicates the endowment is under water. In those cases, the respective program managers will seek other revenue sources, including new donations, to sustain the program or purpose of the endowment during periods of financial stress. Donors can always make contributions to the endowment's "spendable" portion, which will ensure available funds to support the purposes of the endowment.

The UPMIFA Difference

Before UPMIFA	After UPMIFA - Effective July 1, 2011
The terms of the donor agreement take precedence.	The terms of the donor agreement take precedence.
First year endowment is established: 4% payout based on 12/31 fund balance, if sufficient Accumulated Earnings (A/E).	First year endowment is established: 3% payout based on 12/31 fund balance
The payout will be the lesser of 4% of the average of the December 31st value of the endowment for the preceding five years or the A/E balance as of the preceding December 31st after deducting the 1% annual endowment fee.	If Accumulated Earnings (A/E) are positive, the payout will be 4% of the average of the December 31st value of the endowment for the preceding five years. For a new endowment, the first year payout is limited to 3%.
If A/E are negative, there will be no distribution made to the spendable account.	If A/E are negative, a 3% distribution will be made to the spendable account from A/E earnings unless the viability ratio is lower than -20%. This distribution is considered an advance on future earnings; the permanently restricted portion (original gift value) is never affected. No distributions are made if the viability ratio is lower than -20%.
There is no minimum calculated spending amount required for distributions from the A/E to the spendable.	A minimum calculated payout of $250 is required to distribute from A/E to the spendable.