PROGRAM RESERVE SPENDING MODELS

Model Name	Description	Advantages	Disadvantages
Fixed-Dollar Amount, Adjusted for Inflation	Initial dollar amount of spend set by need or other criteria; and, the dollar amount in subsequent years determined by multiplying prior year's spend by inflation factor (e.g., CPI)	Stable year-to-year amount of inflation-adjusted spending; makes budgeting process easier	No provision for downward adjustment in spending where returns are poor; may make it difficult to adjust spending in later years
Percentage of Portfolio, Smoothed	Annual spending based agreed-upon percentage of portfolio value at end of prior year, "smoothed" by average balances of the portfolio over a period of years (e.g., 3 years)	Spending levels based on investment returns, with smoothing dampening volatility; automatically increases spending when markets do well and decreases spending when markets do poorly	Makes short-term budgeting more difficult
Percentage of Portfolio, Ceiling and Floor	Instead of a smoothing term (above), spending is fixed in a certain range (e.g., at 15%, spending would have a floor of 85% of the fixed amount, and ceiling of 115% of the fixed amount	While spending will vary from year-to-year, surplus in good markets can be reinvested in portfolio; floor provides for some downward adjustment in poor markets; provides some assistance with budgeting	Some declines in market could cause further downward adjustment below floor; "hard floor" could result in reduction of corpus
Hybrid	Combine fixed-dollar amount, adjusted for inflation, with percentage of portfolio (e.g., combine 50% of prior year's spend, adjusted for inflation with 50% of fixed percentage, smoothed over three years)	A portion of spend is stable, assisting with budgeting, while a portion varies with the markets	"Hard floor" could result in reduction of corpus; not a complete solution on shorter-term budgeting