WHY IS INTEREST AND INFLATION IMPORTANT?

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May 2010

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Interest earnings bring income to the association that inflation takes away. But do they offset each other? Interest earnings are income the bank shares with you from profits they have made with the money you deposited in their institution. More interest earnings are good, as they mean less owner contributions are needed to pay bills. But inflation is far more significant to an association than interest, because inflation works its effect on the entire value of all your Reserve components. Interest is only earned on the much smaller amount of Reserve cash actually on deposit in the bank.

Avoid these two common mistakes:

1) Ignoring them both. In this case, you are effectively assuming interest and inflation are both zero. Even a bad guess for interest and inflation values will likely be closer to reality than guessing they both will be zero. Presuming they both will be zero, even if you update your Reserve Study each year, will lead to continually being underfunded and chasing after higher and higher expenses, as your costs increase each year and your income needs to be raised in an attempt to regain lost ground.

2) Counting on interest to offset inflation. Because inflation works on the entire "value" of your Reserve expenses, inflation has its full effect every year. Interest is only earned on the fractional amount of Reserve expense cash that you actually have set aside in the bank. Interest earnings, even in more normal economic times, will never offset the larger influence of inflation.