Inflation
Forget About it?

First … About our Book

The chapter you are about to read (next page) is identical to the material in our book “Reserve Fund Essentials”. This 94-page book covers a wealth of need-to-know reserve-related wisdom. Its 17 chapters deliver insights, suggestions and processes designed to ensure that co-owned and co-managed properties create healthy reserve funds that can be managed to everyone’s satisfaction.

Thirteen chapters can be accessed from our website olivergroup.com/rfund. (Click on Book/Articles). The four chapters that cannot be accessed are “**Reserve Fund Fundamentals**” and “**Reserve Funds: What Does Adequate Really Mean?**” These are major, significant chapters and are included in our “Reserve Fund Essentials” book. To find our more about the book and how to order it, please click **MORE**.

Now … About the Authors

You may wish to learn more about the authors of “Reserve Fund Essentials” (and the chapter you are about to read). To do this click **MORE.**

Next … Your Selected Chapter Begins

Next Page, please.

Inflation
Forget About it?

A Reserve Fund Dilemma

The usefulness of showing inflated dollar-amounts in a reserve fund plan is arguable. In this case we make a strong case for creating the plan using only "today's" dollars (uninflated), and suggest that distributing a plan that displays inflated values has little merit — except that people will ask for it if you don't! Read this chapter and see if you agree.

Our answer is essentially … yes. The importance of inflation in reserve fund planning is highly overrated.

This opinion, we know, is not universal. Far from it. We're told that it's essential to account for the effects of inflation when preparing a reserve fund plan.

But we believe there are several things wrong with introducing inflation into your plan. Please stay with us as we explain what they are.

One of them is — you've got to create your expenditures plan and your funding schedule in today's dollars anyway. So what's the point of inflating them when you've done all the real work without the inflation factor? Well, there is one, but it's not terribly convincing. It's simply this: The point of inflating your basic uninflated dollars is that "traditionally", people like to see them … the inflated numbers. Why? We're not sure, but traditions die hard, and this one's been around for a while.

The point is, your future expenditures are planned-for by using the costs, today, of doing the repair work. Decisions must be made regarding how often every given repair should be done, and whether the work should be done in stages. And so on. Then the figures, in today's dollars are plugged in. That's how the expenditures plan is created.

For your owners' contributions, decisions are made in regard to whether or not the expenditures (in today's dollars) call for a funding level of "x" dollars a year, or "y" dollars a year, and whether they should be level throughout the plan period, or whether they should show a decreasing trend, or an increasing rend. Or a little of each. And all this work is done in today's dollars, as well.

Once these decisions are made, there you have it. You're done.

Well, maybe you're not. Because, as we remarked earlier, there are people who'll insist on wanting to see all those numbers, "after inflation". All well and good, but what inflation rate do you use? If you asked a dozen friends (or residents, or reserve fund specialists) they'd give you a dozen answers, all different. Which answer will be closest to reality?

We'd also contend that the inflationary effect on condo expenditures would rarely resemble the inflation estimates for the economy as a whole, or for consumer prices if you were inclined to use those indices as a base. Why? Because the things that a condo spends money on … utilities, wages, the hourly rates for elevator repairers, the price of oil-based tar for the driveway, don't behave like the general indices do.

So not only are any inflation rate choices inherently problematic, but also estimating one for condo work is even trickier.

Having said all that, people will want to see inflated numbers, so pick a number and stick it in there. For one thing, they will show that owners' contributions will be raised a little bit each year because of inflation, and that may provide the traditionalists with the numbers they like. Otherwise it's quite ineffectual. But we have to concede that the delivery of a reserve fund plan without them wouldn't be accepted. That's why reserve fund software, (see page 88), allows for the display of both the uninflated values and the inflated values despite our feeling that the latter doesn't really add anything useful to the output.

Finally, we're aware that other viewpoints and arguments exist. If you'd like to offer yours, please feel very welcome to get in touch with us.