

# Reserve Fund INVESTMENT INTEREST

## **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 [oliver-group.com/rfund](http://oliver-group.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 out 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**

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## Make Money While You Sleep

Want to have happy unit owners? Save them some money! Interest earned on invested reserve fund monies can materially help to keep owners' contributions in check. This chapter provides workable suggestions to tweak your earnings a bit higher. It also describes three ways to calculate estimated interest on future planned balances. One of them is better than the others!

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Almost all co-owned properties maintain interest-bearing accounts in which they stash the bulk of the reserve fund balances. Makes sense of course. It's an additional source of revenue and helps to mitigate the burden of costs borne by the unit owners.

One idea, if you're not doing it already, is to make sure that you have an absolute minimum proportion of your funds residing in non-interest accounts. With all the banking transactions you can do by computer these days, you should be able to transfer money to-and-from savings and checking accounts to take full advantage of interest payment policies.

Some of the reserve fund money may be in bank deposits that guarantee a higher interest pay out if you guarantee a specific term (months, years). They're named differently in the States and in Canada so we're staying away from the regional designations. They pay higher interest rates than savings accounts, but they work only if they're not cashed in earlier than the agreed-upon term. So it'll take a bit of figuring on your part

to ascertain when payments will likely be made to ensure that you won't be cashing in these kinds of deposits before their due dates.

One more strategy that can help is to make a deal with your contractor that will enable the property to pay for the work a bit later than it ordinarily would. A typical deal would be to pay each month only for the volume of work actually accomplished. But there are an infinite number of arrangements possible, and sometimes just by indicating that you'd like to stretch the payments out, the contractor will come back with an attractive workable scheme.

Here's another "timing" technique, and it's one that can pay off handsomely if you adopt it. It could literally add hundreds of dollars (maybe more!) to your fund. Simply, try to schedule your reserve fund work, and thus your reserve fund expenditures, late in the year. Your financial year, that is.

Why? Here's what it'll do for you. You have a job that will cost, say, \$60,000. If it's done in January, and paid for in February, you will have had that \$60,000 in your reserve fund investments for 2 months. You would have earned, for example 4% on it for one-sixth of a year \$400. But if it's done in September, and billed in October, you would have earned 4% on it for five-sixths of the year \$2,000.

Simply by doing the job later, you've captured an additional \$1,600! If you follow that scheme consistently the extra dollars in interest can add up to quite a worthwhile total.

Before we leave this subject, here's an Important Alert. Safety is all-important. It comes first. Don't consider deferring work that has a safety-related element. Balcony railings, cracked walkways, certain kinds of electrical work. It's not worth earning extra interest if anyone's safety may be imperiled.

What you can do though, in this case, is get the work done without delaying it but instead, delay paying for it! You can sometimes persuade the contractor to agree to a periodic payment schedule. Maybe. Maybe not. But if you go this route, make sure it's all negotiated before the job begins to avoid being tainted with the reputation for being a poor payment risk.

Let's change gears now and look at how interest calculations can be handled when a reserve fund plan is being created. If you've read our chapter "Reserve Fund Fundamentals — Part Two" you'll be familiar with the next couple of paragraphs. After that, it's new material.

Interest can represent a significant addition to the "money in" element of the plan. So there would have to be a row on your spreadsheet for the interest dollars as "money in". To calculate the interest dollars you'd estimate an interest rate and apply it to the balance in your reserve fund.

You might ask, which balance — the opening balance for the year? ... The closing balance for the year? ... The average balance for the year? Actually, planners aren't consistent in regard to their choice. We like the last one, the average balance for the year, but the arithmetic is a little harder. Not

really hard, but trickier than using the opening balance base (that's the easiest one).

For a software note on this issue, see page 88.

Want to see the arithmetic necessary for these options? We'd be delighted to supply it. It's a bit long for this chapter so what we'll do is send it along by e-mail if you ask us to. Our address is [rfund@oliver-group.com](mailto:rfund@oliver-group.com)

One important area concerning interest on your reserve fund balances is related to where you can get the best return on your money. It's not one that we're going to tackle for a number of reasons. One reason is that the answer varies all the time. Another is your particular view on being locked in to long-term higher-pay-off instruments versus more fluid investments, which don't pay as much. The answer is best found by engaging a reputable financial advisor — start with your accountant perhaps — and going into the selection process with him or her.

Our messages in this chapter are ... (1) Interest is an important part of the reserve fund plan ... (2) Earned interest can add significant dollars to your fund ... (3) interest can be calculated, for planning purposes a few different ways ... (4) Get face-to-face, timely advice on your reserve fund investments.