How Much Should we have in our Reserve Fund?

By Robert Nordlund, PE, RS
Founder/CEO Association Reserves, Inc.
www.ReserveStudy.com

Preparing for Reserve projects typically takes years of properly sized Reserve contributions in order to avoid deferred maintenance or a last-minute special assessment. So how much should we have in Reserves to feel that your Reserves Fund is “adequate”, so your contributions can remain “stable and equitable”? Fortunately, we can reliably measure the size of our Reserve Fund with a term found in National Reserve Study Standards called Percent Funded, which compares our Reserve cash to the deteriorated value of our Reserve components. Percent Funded reveals the current state of our Reserve Fund, so we can quickly tell if it is “on pace”, or “behind”.

Special assessments and deferred maintenance are common among associations in the 0-30% Funded range (about 30% of all associations). That’s because they don’t have much cash in Reserves compared to the deteriorated value of their Reserve components. They clearly don’t have “enough” in Reserves. On the other hand, special assessments are rare among associations above 70% Funded (again, about 30% of all associations). Due to years of responsibly sized Reserve contributions, these associations have sufficient funds to handle upcoming Reserve projects in a timely manner.

In terms of cash in Reserves, every association has different needs based on the quantity and always changing condition of their Reserve components. Look for our association’s Percent Funded in our updated Reserve Study to get a measure on how we’re doing… if we have “enough” in Reserves or not!