How to put your nonprofit's existing cash to work, so it grows instead of shrinks

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The Federal Reserve's moves to combat inflation the last two years have created a remarkable opportunity for nonprofits to safely put your cash to work. The cash in your checking or savings account that used to be just an afterthought for most of the past decade, given that it produced only 0.01% in interest, can now earn over 5.5%. Leaving those funds sitting in a checking account isn't just a lost opportunity; your organization is actually losing money relative to inflation.

Why is it important to manage your cash?

Inflation has come down recently, but is still well above the Federal Reserve's 2% target level. The Consumer Price Index for September, a measure of the changes in the prices of various goods and a proxy for inflation, was up 3.7% over the last 12 months. As a result, the value of the cash you hold in your checking and savings accounts has eroded, unless it has earned at least 3.7%. It's crucial that nonprofits maintain their purchasing power by investing their excess cash. "Investing," by the way, doesn't necessarily mean pulling your money out of your financial institution to pick winners or losers on the stock market. Rather, it includes something as safe and easy as shifting your money from one account to another that pays higher interest.

Another issue that has come to the fore this year is cash placed in bank accounts above what is automatically protected by FDIC insurance. Accounts held at a bank are only insured up to $250,000. So if a bank fails, then you could lose any amount above that level. The failures earlier this year of Silicon Valley, First Republic, and Signature Banks serve as a warning to – as the old saying goes – not put all of your eggs in one basket (bank) or risk losing anything above $250,000. Thus, managing cash and seeking to minimize exposure beyond FDIC limits should be a focus of any nonprofit to further your organization's mission. By managing your cash throughout the year to maximize yield in high credit quality investments, it can add up over time and provide your organization greater resources for its important work.

When should a nonprofit look at their options?

If you have more than two months of expenses in your checking account, it may be time to start thinking about shifting any "excess" beyond that into an investment account and investing in some of the higher yielding options outlined below.

What are the options to invest your cash?

The many options for nonprofit to invest include (in alphabetical order):

- **CDs/CDARS:** Certificates of deposit (CDs) are securities issued by banks that pay a set interest rate over the life of the issue. They can vary in maturity from three months to five years. Since they are issued by a bank, they are subject to issuer risk, but are supported by FDIC insurance. The Certificate of Deposit Account Registry Service (CDARS) program helps investors avoid the $250,000 FDIC insurance cap by spreading an investment across banks, while providing the investor one point of contact to manage the investment. A negative for CDs is that they have less flexibility. If an investor needs to exit a CD before maturity, it typically comes with penalties in the form of reduced interest.

- **Money market accounts:** These are bank accounts that pay a set interest rate. The rate is determined by the bank and can vary based on the account holder. They offer better rates than what you would receive in a checking account, are very liquid, and can be moved back and forth with your checking account very easily. However, the interest rate offered may be less than money market funds. Since they are issued by a bank, they are subject to issuer risk, but are supported by FDIC insurance up to $250,000.

- **Money market funds:** These funds invest in very short-term, highly liquid securities. They trade like mutual funds and can carry varying degrees of risk dependent on their underlying investments, but typically they are invested in high credit quality issues. These investments are not FDIC insured, but if a Treasury-focused money market fund is used, an investor receives the same level of protection as FDIC insurance.
- **Mutual funds/Exchange-traded funds:** These are pooled investment vehicles that can invest in any of the above securities. They can reduce the administrative burden by managing a portfolio of treasuries or other investments. However, an investor will need to understand the guidelines the fund must operate under to make sure the investment isn’t taking on more risk than they are willing to tolerate with excess cash.
- **Treasury bills:** These are bonds issued by the federal government of varying maturities of less than a year. As they are issued by the government, they are the safest investment option in the market. While they do not come with FDIC protection, because they are issued by the same entity that provides the backstop for the FDIC, they are seen as just as safe.

How might you start putting your cash to work for you?

If you’ve determined that your nonprofit has sufficient cash and want to take advantage of the current high yields, how do you go about implementing adjustments?

You don’t need to be a large organization to do this. It also doesn’t need to be complicated. This is something that can be managed by staff. But if you don’t have the time or comfort level to do it, you can work with a bank or an investment adviser to get started in exploring your manageable options.

Whatever your organization’s cash management strategy, it’s incredibly important to maximize your organization’s assets by making sure excess cash is being invested. It will position your organization to grow and thrive in the future.

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