



## I-Bonds

One type of U.S. Savings Bond, called a Series I-Bond, is quickly emerging as a desirable and timely investment that offers both security and return. The current environment, where the stock market has fallen and inflation is surging, has left investors wondering where to go with investable dollars. If you have anywhere between \$25 - \$10,000 that you don't need for at least one year, SRP suggests familiarizing yourself with the I-Bond. I-Bonds bought on or before April 30, 2022 are paying an annualized rate of 7.12% for six months.

### What is an I-Bond?

An I-Bond is a type of U.S. savings bond issued by the federal government. The bonds are available in denominations (face values) ranging from \$25 to \$10,000. Every year you hold a Series I-Bond, it earns interest. Interest is added to the bond monthly. The interest is paid to you at the time you redeem (cash in) the bond.

I-Bonds are 30-year instruments whose interest rate is reset every six months. The rate is a combination of an inflation calculation over a six-month timeframe and a fixed rate determined by the U.S. Treasury Secretary. The fixed rate remains the same throughout the life of the bond and the inflation (variable) rate is calculated twice per year based on government inflation measures.

The federal government backs its bonds with its ability to collect taxes. Thus, your principal will be repaid unless the federal government defaults on its obligation to pay. Because of the backing of the US federal government, I-Bonds are typically considered one of the most secure investments one can make.

### Why Are I-Bonds Timely in This Environment?

With inflation increasing to multi-decade highs, the inflation calculation for I-Bonds bought until April 30, 2022, pays an annualized rate of 7.12% for six months.

On May 1 every year (for bonds bought from May 1 to October 31) and November 1 (for bonds bought from November 1 to April 30) the U.S. Treasury announces the interest rate to be paid for newly bought bonds and for ones being held.

While the 7.12% rate is only guaranteed for six months, even if the second six months rate falls to 0% (which is highly unlikely) and the bonds are redeemed after one year (forfeiting the last three months of interest) they will still return 3.56% for the year. This compares to Series EE bonds paying 0.1%, one-year U.S. Treasury Bills paying 1.05% per year and the highest one-year CD on Bankrate.com paying 0.8% (as of 04/18/22).

## Is There A Minimum or Maximum Purchase?

I-Bonds can be purchased in a minimum denomination of \$25. The maximum purchase is \$10,000/year for an individual. It is also possible to use your tax refund to purchase an additional \$5,000 in I-Bonds for a grand total of \$15,000. If you are interested in investing but don't have a large lump sum to invest at once, you can also consider setting up a periodic auto purchase option (i.e. this is known as dollar cost averaging) at [www.treasurydirect.gov](http://www.treasurydirect.gov).

## How Are I-Bonds Taxed?

The interest earned on Series I-Bonds is exempt from state and local income taxes. On the transfer of U.S. savings bonds, you are exempt from state gift taxes. However, you may owe state inheritance taxes.

## How Long Will My Money Be Tied Up?

You have to wait at least one year before redeeming a Series I-Bond. Additionally, if you redeem the bond before it is five years old, you will forfeit the last three months' worth of interest.

## Where Can I Purchase I-Bonds?

Series I-Bonds can only be purchased electronically from the U.S. Treasury. Although SRP is happy to help you with this, you won't buy the Series I-Bonds through us or any financial advisor or broker. Visit [www.treasurydirect.gov](http://www.treasurydirect.gov) to make a purchase or learn more.

Below are three U.S. Treasury sites to provide more information and how to create an account.

- This site provides a good overview of Series I Savings Bonds.
- This site provides more in-depth information and historical interest rates.
- This site is where one can open an account.

**SRP is here to help.**  
[plantoday@srpretire.com](mailto:plantoday@srpretire.com)  
866.SRP.401k x1

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