

B&D UPDATE: MAY 16, 2022

Inflation Protection Bonds

Earn 9.62 percent through October and protect against high future inflation

Savings accounts and bank CDs are generally yielding less than 1 percent annually, which means that when inflation runs at 8.5 percent, as it has the past 12 months, you're losing spending power. You can safely earn more with I Bonds, a type of savings bond issued by the U.S. Treasury, and protects against future high inflation.

I Bond Basics

I Bonds are inflation-protected savings bonds, issued and guaranteed by the United States Treasury. Because of the recent high inflation, I Bonds purchased before the end of October 2022 will yield 9.62 percent for the next six months. If inflation stays high, so will the yield.

An I Bond has a 30-year maturity, which means it will pay interest for the next 30 years. It pays a fixed interest rate, which stays the same for 30 years. The fixed rate is currently zero percent. But I Bonds also pay an inflation adjustment that is reset twice a year in May and November. The inflation rate is based on the Consumer Price Index for all Urban Consumers, or CPI-U.

You do not have to hold I Bonds for 30 years. You do have to hold them for one year. If you hold your I Bond for one year and fewer than five years and you redeem your I Bond, you will get dinged with a penalty of three months' interest. You can redeem after five years with no penalty.

The worst-case scenario if you buy before the end of October 2022 and inflation is zero over the second six-month period. If you redeem at one year, you will earn an annualized rate of 4.81 percent. That is far better than any government-guaranteed savings rate around. And that zero percent inflation rate is unlikely. If we hit double-digit inflation, you will get a double-digit return.

The Possible Downside

No investment is perfect. You will likely need a Treasury Direct account. Further, they do not send out statements or 1099-Int forms, so make sure your spouse and beneficiaries are aware you have this account. Many executors discover accounts of deceased by reviewing statements and tax returns, and these I Bonds will not show up for them.

The Bottom Line

If you want to earn a risk-free return and protect against the possibility of future high inflation, then I Bonds may be right for you. When something looks too good to be true, most of the time

it is not. But occasionally, something checks out, and we put I Bonds in this rare category today.

I Bonds at a Glance

Current rate

9.62 percent for bonds issued May 2022 – October 2022

Minimum purchase

Electronic bond: \$25. Paper bond: \$50

Maximum purchase per year

Electronic bonds: \$10,000. Paper bonds: \$5,000

Denominations

Electronic bonds: \$25 and up. Paper bonds: \$50, \$100, \$200, \$500, \$1,000

Issue method

The bonds cannot be bought through brokerage accounts. They can only be bought through the Treasury Department directly online, here is a link to the [TreasuryDirect](#) website to set up an account.

Taxes

Savings bonds are exempt from taxation by any state or political subdivision of a state, except for estate or inheritance taxes. Interest earnings are subject to Federal income tax.

Source: U.S. Treasury and AARP