Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

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Everyone's talking about I Bonds

By Jon

You've probably heard about the eye-popping interest rate offered by the US Treasury on Series I bonds. We'll look at how they work, and their pros and cons.

What they are & how they work

- Series I bonds were first introduced in 1998.
- They have two components: a fixed rate and a semiannual inflation rate.
- To arrive at the composite rate, which is the rate you see mentioned in the press, you multiply the semiannual inflation rate by two and add the result to the fixed rate.
- The inflation component can be and generally is adjusted every six months. See when rates change.
- The fixed rate is currently zero, meaning the entire composite rate comes from the inflation component. And since inflation has been running hot, these bonds offer an attractive yield at the current time.

Rates

- The composite rate on I bonds owned between November 2021 and April 2022 was 7.12%.
- In May 2022, the composite rate reset to 9.62%, which is good through November 2022.
- Here's a look at where rates have been historically.
- Since all the return for I bonds is coming from the inflation component currently, a reduction in inflation would mean the I bond composite rate falls as well.
- Importantly, if you buy I bonds now, you aren't locking in a 9.62% rate throughout your holding period. Your rate and return will fluctuate over time.

Purchasing

- An individual can buy up to $10,000 in I bonds per calendar year, which is a low limit.
- A husband and wife could each buy $10,000 every year, however, both would have to open their own account with the U.S. Treasury.
- The Treasury does allow individuals to purchase up to an additional $5,000 in paper I bonds if they receive an income tax refund.
- And you can buy them as gifts for others. The $10,000 total applies to the recipient of the bonds, not the giver.

Limitations

- Besides the low purchase amount, another limitation is that you don't have access to your money for the first 12 months. This holds true for each round of bond buys.
- After the first year, if you take money out of your I bonds before the fifth year, you pay a penalty of three months interest.
- After year five, you can take the money out without penalty.
- Series I bonds can't be held in a brokerage account or in retirement accounts, only directly through the U.S. Treasury with after-tax dollars.

Where they work best

- In our view, I bonds may be appropriate as a long-term savings tool, but they don't work well as an emergency fund due to the short-term lockups and interest penalties.
- So if you keep some long-term savings in a savings account and don't think you'll need this money for several years, it might be worthwhile to buy some I bonds.

Hopefully, this answers some of your questions about Series I bonds. If any questions remain, please reach out to our team. If you're interested, here is a link with more information about I bonds.

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