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Series I Bonds

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We are all feeling the pinch of inflation. As we adjust to the rising price of goods and services, a silver-lining has emerged and has caught the eye of investors: Series I Bonds.

WHAT ARE SERIES I BONDS?

Series I Bonds, otherwise known as I Bonds, have become a popular talking point in 2022. Rightfully so, given their current annual interest rate of 9.62%. The return offered by I Bonds is a combination of a fixed rate, set by the U.S. Treasury Department, and an inflation-adjusted variable rate, which adjusts every 6 months based on the Consumer Price Index (CPI).

In addition to the appealing current interest rate, I Bonds also provide the comfort of being backed by the U.S. Government. This makes them appealing to investors who are looking for a secure investment that can balance current inflationary pressures.

In terms of the logistics, Series I Bonds cannot be purchased within a Brokerage account, but rather, electronic I Bonds can be purchased directly online at: www.TreasuryDirect.gov. The minimum purchase is $25 (per person, per year) and the maximum purchase is $10,000 (per person, per year). There is also an opportunity to purchase up to $5,000 in paper I Bonds using tax return dollars.

After I Bonds are purchased, there is a minimum 1 year term of ownership. Investors also want to keep in mind that if I Bonds are sold within 5 years, the investor will forfeit 3 months of interest.

I Bonds mature after 30 years. Interest is earned until they mature, or until they are sold, if sooner. Tax deferral on the interest is a nice benefit, and there is no state tax. Federal tax will be due upon maturity or when the I Bonds are sold, unless the funds are used for education expenses.

ARE SERIES I BONDS A GOOD INVESTMENT FOR YOU?

While the current benefits of owning Series I Bonds are clear, the question of whether they are a good investment depends on the investor's situation. In particular, it is important to understand the liquidity constraints as well as future adjustments to the interest rate.

With a minimum 1 year, and an ideal 5 year, holding period, investors need to understand that their money will be tied up for some length of time. If short-term liquidity is a priority, I Bonds may not be a great fit.

Of course, the 9.62% interest rate is what has drawn many investors to consider investing in I Bonds, but the rate will adjust every 6 months. (The current 9.62% initial rate is available through October 2022.) If inflation persists, an elevated rate may continue to be offered. If inflation recedes, the rate offered on I Bonds will likely drop. Keep in mind, buying now does not lock in the 9.62% current return for the life of the I Bonds you purchase.

Series I Bonds could be a good fit for an investor who is looking for a substitute for CDs or money market funds. Even so, rates on CDs and money market funds are also increasing in the current environment. With the potential of a reduction in CPI, and subsequently a decrease in the interest rate for I Bonds, the benefit of I Bonds versus other low-risk investments may reduce over time.

If there is cash sitting idly at the bank that is not earmarked for short-term cash flow needs, Series I Bonds may provide a solution as a safe, diversifying, inflation-protected investment. However, with the limits on the maximum allowed investment, the return may not make much of an impact on an investor's total portfolio.

Liquidity and potentially higher returns, in exchange for taking on more risk, is still best achieved through investing in a diversified mix of asset classes within a brokerage account. Please reach out to your advisor with any questions about Series I Bonds, or to review how your portfolio is navigating the current market environment.

ADDITIONAL INFORMATION ABOUT SERIES I BONDS

Additional information can be found on the TreasuryDirect.gov website:
https://treasurydirect.gov/indiv/products/prod_ibonds_glance.htm.