



06.15.22 | FINANCIAL PLANNING

Series I Bonds

Janelle L. Coulman, CFP® - Financial Advisor

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

Important Disclosure

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Grimes & Company, Inc. - "Grimes"), or any non-investment related content, made reference to directly or indirectly in this blog will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this blog serves as the receipt of, or as a substitute for, personalized investment advice from Grimes. **Please remember** that if you are a Grimes client, it remains your responsibility to advise Grimes, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Grimes is neither a law firm nor a certified public accounting firm and no portion of the blog content should be construed as legal or accounting advice. A copy of Grimes' current written disclosure Brochure discussing our advisory services and fees is available for review upon request. **Please Note:** Grimes does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party, whether linked to Grimes' web site or blog or incorporated herein, and takes no responsibility for any such content. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly.

