



# PENSION & WEALTH MANAGEMENT ADVISORS

## IMPROVING FINANCIAL SECURITY

800 SOUTH STREET SUITE 160 WALTHAM MA 02453 t 781.398.0077

### SERIES I SAVINGS BOND

With inflation hitting a four-decade high, we have received questions regarding Series I Savings Bonds. Clients have asked how they work, and if they might be a viable investment.

#### What is a Series I Savings Bond?

Series I Savings Bonds are issued by the U.S. Treasury and are designed to protect the value of your cash from inflation. They earn interest based on combining a fixed rate and an inflation rate, which is set twice per year. The interest that your bond earns is subject to federal income tax, but not state or local income tax, making it an appealing low-risk investment for investors who live in high-tax states and cities.

#### Current Rate

The initial interest rate on new Series I Savings Bonds issued between May 2022 and October 2022 is **9.61%**<sup>1</sup>. However —this rate is variable, and will change every 6 months, either higher or lower, based on a composite index rate.

The composite interest rate consists of a fixed rate, set at purchase, that lasts throughout the life of the bond, and a variable inflation rate calculated twice a year based on changes in the non-seasonally adjusted *Consumer Price Index for all Urban Consumers*. The interest is compounded semi-annually and is paid to you when you eventually cash the bond.

#### Required Holding Period & Penalties

It is important to note that you are required to hold the bond for *at least one year* before cashing. To receive all the interest that is due, the investor must hold the bond for at least five years. If you redeem the bond within the first five years, you will lose your last three months of interest. There is no interest penalty for cashing in the bonds after five years, and the bonds have a maturity of 30 years.

#### Tax Implications

Series I Savings Bonds are subject to federal income tax, *but not state or local income tax*. The interest that your savings bond earns is also subject to federal, estate, gift, and excise taxes as well as any state, estate, or inheritance taxes. Bond interest may be partially or completely excluded from federal income tax when used to finance higher education.

#### Limits on Purchases

Investors can purchase up to \$10,000 electronic Series I Bonds and \$5,000 paper Series I Bonds each calendar year. If your bond is purchased electronically, you can purchase another \$5,000 with your tax refund. The minimum purchase is \$25 for electronic bonds and \$50 for paper bonds. Take note that paper Series I Bonds can only be bought when filing a federal income tax return.

<sup>1</sup> Wall Street Journal, May 23, 2022

## **How to Buy & Cash In**

Series I Savings Bonds can be purchased electronically through the U.S. Treasury's TreasuryDirect website ([https://www.treasurydirect.gov/indiv/myaccount/myaccount\\_treasurydirect.htm](https://www.treasurydirect.gov/indiv/myaccount/myaccount_treasurydirect.htm)). You may also purchase paper Series I Bonds by mail when you file your federal tax return.

Electronic Series I Savings Bonds can be redeemed through the TreasuryDirect website. Paper bonds may be cashed at your local bank depending on how long you have held an account there. You may also send paper bonds to the Treasury Retail Securities Services along with FS Form 1522, which can be downloaded on the TreasuryDirect website. You do not need to sign the bonds, but you will need to validate your identity.

## **Summary**

The Series I Savings Bonds are a viable option for investors looking to protect the purchasing power of their cash from inflation. However, there are drawbacks: the rate is variable and changes every 6 months, there are penalties to early withdrawal, the amounts that can be purchased are very limited, and buying them can be somewhat cumbersome. In summary, these bonds may be attractive for smaller investors, but there are other options for larger investors to provide similar interest rate and inflation protection in their portfolios.

*Pension & Wealth Management Advisors does not render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.*

<sup>1</sup> Wall Street Journal, May 23, 2022