



Worth knowing

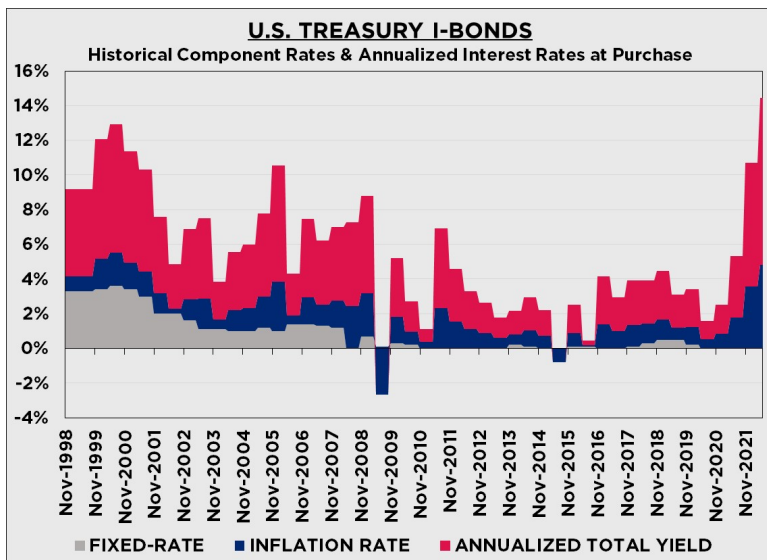
June 16, 2022

Higher inflation has heightened interest in U.S. Treasury I-Bonds (“I-Bonds”). I-Bond interest is tied directly to the Consumer Price Index. Key features of I-Bonds are summarized below. You can find more details [here](#).

Interest on I-Bonds is determined as a combination of a fixed rate plus an inflation rate. New fixed rates are set from time to time by the U.S. Treasury at its sole discretion. The fixed rate in effect at time of a bond’s purchase remains in effect as long as the bond is held. The inflation rate is set twice a year, May 1 and November 1. It is based on the changes in the non-seasonally adjusted Consumer Price Index for all Urban Consumers (“CPI-U”). The actual calculation is the change in the CPI-U for the six months ended each March 31 and September 30. The minimum I-Bond interest rate is 0%. The CPI-U has experienced declines (i.e., deflation) on two occasions since the inception of I-Bonds. At such times, the effective rate of interest is the fixed rate plus 0%.

The chart here shows how I-Bond components and annualized interest rates at purchase have varied since issuance of I-Bonds began. As an indication of levels over time, averages for the whole period are: 0.9% Fixed Rate; 1.2% Inflation Rate; 3.3% Annualized Interest Rate at Purchase. The following terms are in effect through October 31:

$$9.6\% \text{ Annualized Interest Rate at Purchase} = 0.0\% \text{ Fixed Rate} + 2 \times (4.8\% \text{ Six-Month Inflation Rate})$$



For any investment matters or questions, please contact Tim or Adam.

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I-Bonds are an effective investment for keeping pace with inflation. At the same time, relative returns can be quite variable. At different times, I-Bond returns have compared favorably to U.S. Treasury Inflation Protected Securities (“TIPS”) as shown below.

Total Annualized Rates of Return
Periods Ended 05/31/2022

	<u>Since Nov-1998</u>	<u>10-Years</u>	<u>5-Years</u>
I-Bonds	+5.5%	+5.0%	+2.3%
TIPS	+5.1%	+2.0%	+3.7%

I-Bonds are issued with a 30-year life. After an initial one-year holding period, they can be redeemed on demand. Beyond the initial year and up to a total initial holding period of five years, redemption value is reduced by the amount of the prior three-months interest.

With few exceptions, \$10,000 is the maximum amount of I-Bonds that can be purchased in any one calendar year per tax ID. The minimum purchase amount is \$25 and purchase amounts up to the maximum can be requested to the nearest penny.

Interest on I-Bonds is credited and compounded monthly. Annual interest earned is reported on IRS Form 1099-INT. Interest is subject to federal income taxation but is exempt from state and local income taxation. Owners have choices on the timing of taxation. Taxation can be deferred on all interest earned to the end of the bond’s life or to the date of redemption. An owner also can choose to report each year’s interest in their federal tax filing beginning in the year of initial ownership or in any subsequent year. Once such an annual determination is made, all future interest must be reported annually.

I-Bonds are purchased directly and electronically through the U.S. Treasury website. Each bond purchased is held in an electronic account created for each tax ID. The link [here](#) is to the account opening process. Purchase can be funded through ACH transfer from a bank account. Please contact us with any questions on I-Bonds.

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