

November 2023

Reconsidering I Savings Bonds

With inflation beginning to fall, deciding when to cash in your Series I Savings Bond becomes essential. Previously, inflation created an opportunity for these bonds since they earn interest based on a fixed rate plus an inflation rate. At that time, Bonds and Certificates of Deposit (CDs) paid far less than the combined rate of 9.62% in 2022. The current combined rate is 5.25%, which combines a fixed rate of 1.30% for newly issued bonds and an inflation rate of 3.94% for six months. The inflation rate made the I Savings Bonds attractive since many purchased for the inflation rate alone since the fixed rate was 0% at the time of issue. Depending on your issue date, many will have a combined rate between 3.94% and 4.40%, less than most bonds and CDs rates available today.

The rate compounds semiannually, and the inflation rate changes every six months, in November and May. Although we hoped inflation would decrease for the greater good of the economy, the lower inflation rate makes the I Savings Bond less attractive than Bonds or Certificate of Deposit (CD) today. Yet, I Bonds must be held for at least 12 months. One option would be to keep the bond for at least 15 months to not lose the last quarter of interest as a penalty for not holding it for five years. After five years the penalty goes away, but the current interest rates may not warrant holding this type of bond long-term. This is something we can review together.

For example, if you purchased your I Savings Bond in October 2022, you would have received a fixed rate of 0% and an inflation rate of 9.62% or 4.81% for six months. In order to receive a full 12 months of the higher interest rate, you could redeem the I Savings Bond after the first business day of the 15 month after the issue date. In this example, the date will fall sometime after January 2, 2024.

On the federal level, bond interest earned is taxed as ordinary income, but it is not subject to state or local income tax. There is an option to report the interest on your tax return each year, but you can choose to report the interest when the bond is redeemed, which is what I plan to do.

You can redeem your bond by visiting the website where you purchased it (see link below). The proceeds will be deposited into the bank used to fund the bond.

<https://www.treasurydirect.gov>

If you would like to discuss what path is right for your circumstances, please give me a call.

Kind regards,
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