This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit https://www.djreprints.com.

https://www.wsj.com/articles/investors-flock-savings-bonds-for-protection-against-inflation-11643850044

MARKETS | JOURNAL REPORTS: PERSONAL INVESTING

Investors Flock to 'I Savings Bonds' for Protection Against Inflation

They have all sorts of advantages for those worried about rising prices. One caveat: There is no secondary market.

Series I savings bonds from the Treasury have a rate that combines a fixed rate—now zero—as well as a rate tied to inflation, currently a juicy 7.12%.

PHOTO: STEFANI REYNOLDS/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Lori Ioannou

Feb. 6, 2022 11:00 am ET

As inflation rises, another low-risk investment is getting more attention: the tried-and-true Series I savings bond known as inflation or I bonds.

These federally guaranteed instruments currently have annualized yields of 7.12%, which you can only collect when you cash out. That represents the second-highest rate on newly issued I bonds since they were introduced in 1998, and it is more than double the 2.232% yield on 30-year U.S. Treasury bonds.

"Interest in I bonds is exploding as inflation continues to spike," says Kevin Brosious, a certified financial planner and president of Wealth Management Inc. in Allentown, Pa. He says that his clients are concerned about rising prices in nearly every category. In December, the consumer-price index rose 7% year over year. "The yield on these instruments beats everything in the fixed-bond market—even junk bonds now—and they come with no credit risk," he says.

Rising inflation is bad for traditional bonds because it erodes the value of bondholders' coupon interest payments, often triggering a drop in bond prices.

But unlike Series EE savings bonds, which have a fixed rate from issuance to maturity (currently 0.10% annually), the composite rate on I bonds is determined by two factors: a fixed rate and a semiannual inflation rate. The fixed rate—now zero—is set by the Treasury Department every six months. It applies for the 30-year duration of the bond. The inflation rate varies and is measured by the CPI for All Urban Consumers (not seasonally adjusted), which includes food and energy, and is reset on the first business day of May and November.

Another significant difference is that I bonds don't double in value if held for 20 years like Series EE bonds. Instead, I bond investors receive face value plus accrued interest upon maturity or redemption, as long as they hold the bonds for at least five years.

As for similarities, both types of savings bonds are exempt from state and local taxes. Interest earnings are only subject to federal income tax, but are exempt if the money is used for qualified higher-education purposes.

Some limits

I bonds do come with some caveats, however. There is a $10,000 annual limit on how much of these securities an individual can purchase through TreasuryDirect.gov, so investors have to get creative if they want to maximize holdings. And there is no secondary market for I bonds. You cannot cash them out for one year, and if you redeem them within the first five years you will lose three months of interest.

I bonds can be purchased by U.S. citizens, or civilian employees of the U.S. Investors can open accounts to buy these securities for themselves; for a business, trust or an estate; as a gift to another individual; or for a child through a custodial account opened on the site.

SHARE YOUR THOUGHTS

What investment strategies are you using in the face of rising prices? Join the conversation below.

The only way taxpayers can buy paper I bonds is with income-tax refunds, using IRS Form 8888. In any calendar year, individuals can purchase a total of $5,000 of paper I bonds without it affecting the $10,000 limit on purchases from TreasuryDirect. Paper bonds are mailed to the address the taxpayer has on file with the IRS after his or her return is processed. But if the IRS encounters an error on the return, the bond purchase will be canceled.

Filling a gap

"I bonds are meant to be savings tools," says Sheila Padden, a certified financial planner and CEO of Padden Financial Planning LLC in Chicago. "They fill a gap in a portion of one's fixed-income portfolio. They are great for emergency funds and are also good for retirees or near-retirees as a bond ladder to supplement guaranteed income."

To maximize I bondholdings, Ms. Padden advises her clients to open multiple accounts on TreasuryDirect. As she explains, "A couple can open an individual account for each spouse, an account for an LLC or S Corp. if they own a business, and an account for a revocable living trust. That brings the total to $40,000" a year, she says. "Those holdings can be increased to $45,000 if a couple filing jointly buys another $5,000 of I bonds with their IRS income tax refund in 2022."

Brian Therien, senior fixed-income analyst at Edward Jones, says I bonds can be a good way to save for college for those who don't need cash flow before education costs begin. "If you meet the IRS qualifications and use them for higher-education expenses, the interest is tax-free," he says.

Elliott Appel, a certified financial planner and founder of Kindness Financial Planning in Seattle, says that before buying I bonds, it's important for investors to look past the hype and really think about whether these securities fit into their financial plan. “Ask yourself, ‘Will they really move the needle on your financial goals?’ ”

Mike Turi, founder of Upbeat Wealth in New Orleans, who is a certified financial planner and accredited portfolio management adviser, agrees. He says most of his clients, who are young families with $75,000 to $400,000 of annual income, are looking at I bonds. “There hasn’t been an opportunity like this for two decades. In this low-interest environment, having the ability to lock in a good return is really powerful.”

Mrs. Ioannou is a writer in New York. She can be reached at reports@wsj.com.

JOURNAL REPORT

- Insights from The Experts
- Read more at wsj.com/personalinvestingreport

MORE IN PERSONAL INVESTING

- What to Know About TIPS
- Sex and the Proxy Fight: Is There Bias?
- Olympic Defeats and Investors’ Moods
- A Medicare Shock: Surcharges
- U.S.-Stock Funds Stumble to Start 2022

Appeared in the February 7, 2022, print edition as 'Here’s Another Security Getting Attention as Inflation Takes Off.'

Copyright © 2022 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit https://www.djreprints.com.