



Rodney's Take

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A Monetary Christmas Gift in May

It's not often that the U.S. government offers a financial gift. Your job is to take it.

Last November, I wrote about U.S. Treasury inflation bonds, or I-bonds, which are 30-year bonds issued every six months on the first business day of May and November. You can purchase them anytime, but you will be buying the most recent issue date. The last issue in November 2021 will pay 7.12% over the first year. The next issue in May will pay an estimated 9.62% over the first year.

I don't know of any other way to get nearly double-digit interest on a U.S. government guaranteed bond.

As a refresher, let me tell you that I-bonds are a bit clunky. They can be purchased only directly from the U.S. government at www.treasurydirect.gov or by using part of your federal tax refund. While this means maintaining one more account, it also means that there are no brokerage or transaction fees of any kind. The bonds cannot be redeemed for one year. If holders redeem between one and five years, they forfeit the last three months of interest. Those who buy the new series in May could hold for one year and one day, earn 9.62%, redeem them and give back the three months (25%) of interest, and still walk away with 7.22%. That's not terrible.

The I-bonds pay a composite interest rate that combines a fixed rate with the current inflation rate compounded semi-annually. For years, the fixed rate

has been zero, and it's likely to be zero again in May. This leaves the interest on I-bonds completely dependent on the current inflation rate. As inflation falls in the years ahead, the interest on I-bonds also will drop. That's fine, because investors can redeem them any time after the first year.

The really frustrating part about I-bonds is that purchasers are limited to \$10,000 each year, or \$15,000 if \$5,000 of the purchase comes from a tax refund. Some members of Congress have proposed raising the limit to \$100,000 per person, but we're not there yet. However, there are a couple of small workarounds.

The bonds must be owned individually. Married couples can buy \$10,000 for each spouse and, of course, families can buy \$10,000 per child. Interestingly, corporate entities also can purchase \$10,000 worth of I-bonds, so you can buy them in your corporation, partnership, or trust.

If you haven't opened an account or several accounts at www.treasurydirect.gov, do it now. Then, in May, buy whatever amount of I-bonds makes sense for you. It's the best gift you likely ever will get from the U.S. government, sort of like Christmas in May.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.