



## Ask a Trust Officer

### I Savings Bonds

DEAR TRUST OFFICER:

There's a lot of talk about inflation being on the horizon, with some commentators pointing to the rising price of gold as a leading indicator. Should I be looking into I Savings Bonds for some inflation protection? How do I Bonds work?

—PRICE SENSITIVE

DEAR PRICE:

The interest rate on I Savings Bonds, issued by the Treasury, has two components, a fixed rate and an inflation rate. The fixed rate is announced in May and November, applies to bonds issued in the subsequent six months, and stays the same for the 30-year life of the bond. The inflation rate is variable, changing each May and November based upon the Consumer Price Index (CPI). The two rates are added together.

During deflationary times, the CPI may go negative and so may reduce the rate of interest paid on the I Savings Bond, but not below zero. For example, in May 2009 the fixed rate was set at 0.10%, and the inflation rate was -2.78%, so newly issued I bonds paid no interest during the following six months. The inflation rate was set at 1.53% in November 2009.

Interest earned on I Savings Bonds is federally taxable, but the tax can be deferred until the bond is redeemed. The interest may be tax free if it is used for qualified higher education expenses. You cannot redeem an I Savings Bond for 12 months following purchase, and if you redeem it within five years you will forfeit the most recent three months of interest payments. After five years, there is no penalty for redemption. The bond can continue to earn interest for up to 30 years.

I Savings Bonds are suitable for investors who are looking for an ultra safe place for their money that includes an inflation protection component.

Please contact one of our trust officers at (989) 779-6207 with any questions.

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