

# A friendly oasis in the low-interest-rate desert

Story by Joy Clady

**F**inding a safe place to put some of your money used to be as simple as a stop at your local bank or credit union for a competitive rate on a certificate of deposit. In today's low interest rate environment, however, finding a safe place that has a chance of keeping up with inflation can seem like an exercise in futility.

Almost anyone who has a CD maturing has to wonder if there is something better out there than 1.2 percent CDs or 0.01 percent money market accounts.

The good news is that there is a viable alternative for some of your safe money, which will pay 4.6 percent for the next six months and is guaranteed to keep up with inflation for 30 years. This safe alternative is not an exotic or complex product. Instead, it is simple and familiar: Savings Bonds.

The Series I Savings Bond (as opposed to the other familiar savings bond, the Series EE) pays both a fixed rate and an inflation rate. Currently, the fixed rate for these bonds is zero percent — clearly not the attractive part. What is attractive in these days of insignificant interest rates is the inflation rate the bonds will pay: 4.6 percent, guaranteed for the next six months. Every six months, the inflation rate will

change based on the inflation rate for the previous period.

If there are periods of deflation, such as what investors experienced during this past year, you are still protected with Series I Savings Bonds. The earnings rate cannot go below zero. The redemption value of your I Bonds cannot decline.

In addition to offering a competitive rate and downside protection, these U.S. Treasury securities have some tax benefits as well. Interest earned on Series I Bonds is exempt from state and local taxes. Interest accrues until the bonds are redeemed, so you only pay federal income taxes on the interest in the year they are redeemed. Depending on your income level, you may be able to avoid income taxes on the

interest altogether if the bonds are registered correctly and used for qualified college expenses.

It is important to point out some of the fine print that could be a drawback for some investors. Series I Bonds must be held for a minimum of one year. Bonds that are redeemed within five years will forfeit three months of interest. The biggest caveat may be the limit on the amount of I Bonds that you can purchase.

You can only purchase up to a maximum of \$5,000 per year in paper I Bonds, which can be obtained through a bank or credit union. For those who feel comfortable with transactions on the Internet, you can also purchase an additional \$5,000 per year of electronic I Bonds through [www.treasurydirect.gov](http://www.treasurydirect.gov).

In a few years, you can build up a pool of these bonds as part of the safe portion of your portfolio.

Even with the limits on the amounts you can buy, the Series I Savings Bond is a gem in the current desert of ultra low interest rates. Putting \$10,000 in a money market account earning 0.01 percent will earn you a paltry \$1 in interest in a year. The same money in Series I Saving Bonds will earn \$230 in the first six months.

In the end, these government bonds do not promise to do anything other than keep up with inflation as measured by the Consumer Price Index for All Urban Consumers, or the CPI-U. Using these bonds for your safe money will prevent you from losing money, and more importantly, it will prevent you from losing the buying power of your money. That is more than can be said about most money market, savings, and CD rates today.

**JOY CLADY** is a resident of Pleasant Prairie and a fee-only financial planner at Financial Service Group Inc., a registered investment advisory firm at 4812 Northwestern Ave., Racine, WI 53406. Call 262-554-



4500 or visit online at [www.ToYourWealth.com](http://www.ToYourWealth.com).



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