



Change in rules hits inflation-adjusted bonds

Limits on purchases prevent major savings

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How does an investment change from being a safe and investor-friendly place for your money to a really bad option?

When the U.S. Treasury changes the rules. Case in point: Inflation-adjusted savings bonds.

Even when the guaranteed returns over inflation started dropping from 3.6 percent in 2000 to 1 percent and then to 1.4 percent, which has been the range since 2004, they were an easy investment to buy and hold and keep your money ahead of inflation.

Now, to many, they're a poor choice.

Here's how they work. Inflation-adjusted savings bonds pay you a combination of a fixed interest rate and a variable rate that's based on inflation. Twice a year, in May and November, the Treasury tells you what the new rates will be, based on changes in the consumer price index and what's happening in the credit markets. The new rates apply to any bonds sold in the following six months.

Keep in mind that these are 30-year bonds. So whatever the Treasury sets as the fixed rate when you buy them is what you'll get for the life of the bond after inflation. What you earn from the bond will vary with inflation, but that fixed rate will always be your real return for as long as you own the bond.

This month, the Treasury said the new fixed rate would be zero. For the next six months, if you buy an inflation-adjusted savings bond, you receive no real return. If you had bought your I-bond a couple of weeks earlier, you would have received a fixed rate of 1.2 percent.

This was a shock to many, the biggest rate cut since I-bonds were introduced.

Buying these savings bonds now is a bet on inflation going up and up and up.

Here's the other way to look at this. If you buy a bond now, it yields 4.84 percent, which is a nice rate. That's the composite rate the Treasury set.

[Jack Quinn](#), chief executive officer and founder of SavingsBonds.com, says there's too much attention being paid to the zero fixed rate and not enough to the actual return. "It's a huge rate of interest when you think how safe this investment is," Quinn said. "You have to keep your eye on the doughnut and not on the hole."

The government has made it more difficult to take advantage of it.

The Treasury came up with a new set of purchase limits that allow you only to buy \$5,000 in paper savings bonds and \$5,000 in electronic savings bonds per year per person. The old limit, before January, was \$30,000 plus \$30,000, which is a more sensible amount for someone trying to save for their children's education or for retirement.

If your investment is short term, the best bet may be the highest-yielding certificate of deposit, according to Greg McBride, senior financial analyst at Bankrate.com. You can tailor this to your needs. If you need the money in three years, buy a three-year CD.

Why? The other inflation-adjusted options may not fit so well with savers who like supersafe savings bonds. There are Treasury inflation-protected securities, but TIPS "are not a great deal right now," he said. The five-year TIPS are paying 0.8 percent above inflation and the 10-year, 1.5 percent above inflation.

In addition, TIPS cause you to have some tax issues that make them difficult to hold outside of qualified retirement accounts.

There are inflation-indexed corporate notes, but those take you away from the safety of a government-backed investment and introduce you to the concept of credit risk, the risk that the company will fail to repay the note.

Superwary savers might not want that.

If your investment is long term, put the money to work in a diversified portfolio of stocks and bonds.