

Knowledge is Power

April 2023 Question Of The Month

*“Hi, Brian. Per your advice a couple years ago, we purchased I-Bonds. That was great advice, and we continue to receive a great safe rate of return. However, we heard the renewal rate is expected to go down, and since CD and money market rates have come up, should we now sell the I-Bonds and redirect that money elsewhere? Thank you.”
Tim and Rita*

Hi, Tim and Rita. Thank you for sending in your question. It is a great one that is on the minds of many people out there. Series I Savings Bonds have been paying eye-popping rates during this inflationary cycle we have been in over the last couple of years. And even though they are not currently paying as high as the interest rate was a few months ago, they are still paying 6.89% interest, which you will get for the next 6 months if you buy them in the next few weeks before the new rate is published. Remember, the rate changes on Series I Bonds every 6 months based on the rate of inflation, which is every May 1st and November 1st. When you purchase I-Bonds, you get the current rate for 6 months, then you move into the next published renewal rate.

The new renewal rate that will be published on May 1st is likely to be lower than the current rate, which many economists are projecting to be somewhere around 3.5%. Now, this is where it gets tricky. And this is why questions have been coming in to us such as ‘I bought Series I Savings Bonds when they were paying really high rates. The rates are going down; should I bail?’ Well, you certainly can, but if you sell I-Bonds anywhere between the 1st year of ownership and the 5th year, you forfeit the last 90 days of interest.

So if the renewal rate is 3.5% and you are not happy with that, you can sell after holding the I-Bond for 3 months after renewing at that rate, which essentially then would be only giving up less than a percent of interest. That is a small cost to pay for the ability to move that money into something else like a CD or money market account to earn close to 5%.

However, remember, you get the current rate for 6 months after you purchase I-Bonds. So if you buy now (or a few days before May 1st), you’re going to get a rate of 6.89% for the next 6 months. And even if the renewal rate comes in at 3.5% interest, when you blend that with the 6.89% current interest rate, you are still averaging over 5% for the year. So, if you have not maxed out your I-Bond purchase amount of \$10,000 per person per year, it is still a good opportunity to earn a really good, safe interest rate.

For more information on I-Bonds and how to purchase them, go to savingsbonds.gov, and it will take you to Treasury Direct. For a more detailed answer to this question as well as answers to many more retirement planning questions that have been submitted to us, join us on The Retirement Money Matters Show. The show airs on Sunday morning at 8 on WWKI (100.5 FM), or online at www.theretirementmoneymattersshow.com. You can also obtain this information by reaching out to us at Hayes Advisory Group at 765-452-PLAN (7526), 800-939-1603 or brian@hayesadvisorygroup.com.

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