U.S. Savings Bonds: Saving for Your Future

What are savings bonds?
Savings bonds are issued by the U.S. Treasury Department. When buying them you are making a loan to the Federal Government. They offer a safe place for your savings dollars.

Why should I buy them?

Safety
Savings bonds are backed by the full faith and credit of the United States. Your principal and earned interest are safe and cannot be lost because of changes in the market. Because they are registered with the Treasury Department, they can be easily replaced if lost, stolen, or destroyed.

Affordability
You can buy savings bonds for as little as $25. Participants in a payroll savings plan may buy them in even smaller installments.

Tax advantages
- Earnings are exempt from all state and local income taxes.
- Payment of federal income taxes can be deferred until the bonds are redeemed or until final maturity for Series EE and I Bonds.
- Earnings may be exempt from federal taxes if used to pay for qualified higher education expenses.

Accessibility
The money you place in savings bonds is available whenever you want following an initial holding period of twelve months from the issue date. If redeemed earlier than five years from the issue date, however, an early redemption penalty equal to the last three months of earned interest is assessed.

Convenience
You can buy savings bonds online at http://www.treasurydirect.gov/, through a payroll savings plan, or at over 40,000 financial institutions nationwide.

Do savings bonds have any disadvantages?
As with any investment, savings bonds also have disadvantages.

- Bonds cannot be cashed within the first twelve months after purchase.
- If cashed prematurely, bonds will not reach their face value.
- No current income is received for Series EE or I Bonds.
- Other investments may provide a higher rate of return.
- If cashed within the first five years from the issue date, you pay an early redemption penalty equal to the last three months of earned interest.

What types of U.S. Savings Bonds are available?

EE Bonds
The Series EE Savings Bond is an accrual type of security meaning interest is added to the bond monthly and paid when the bond is cashed. They are sold in denominations of $50, $75, $100, $200, $500, $1,000, $5,000, and $10,000.

Interest accumulates monthly and is compounded on the semi-annual anniversary of the bond’s issue date. Series EE Bonds issued from May 1, 2005, to the present earn a fixed rate of interest. Savings bonds issued prior to that date will continue to be governed by the terms in effect when they were issued. For example, Series EE Bonds purchased between May 1997 and April 30, 2005, earn a variable market-based rate of return determined each May 1 and November 1.

You can purchase no more than $30,000 ($60,000 face value) of Series EE Savings Bonds in the paper form in your own name in each calendar year. You may, however, purchase an additional $30,000 Series EE in electronic
I Bonds

I Bonds are the newest type of bond designed to protect the purchasing power of the investment and earn a guaranteed real rate of return. Interest is added to the bond monthly, compounded semiannually, and paid when the bond is cashed. They are sold at face value in denominations of $50, $75, $100, $200, $500, $1,000, $5,000, and $10,000.

For I Bonds, the purchase limit is $30,000 per Social Security Number per calendar year in the paper form. An additional $30,000 can be purchased in electronic form through http://www.treasurydirect.gov/. Your Series I Bond purchase limit is not affected by Series EE Bonds you may have purchased.

The I Bond interest is made up of two parts. One is a fixed rate that remains the same for the life of the bond. The second is an inflation adjustment that is updated every six months to track the inflation rate and is computed using the Consumer Price Index published by the Bureau of Labor Statistics.

Every May 1 and November 1, the Treasury Department announces the fixed rate that will be in effect for all I Bonds issued in the next six months.

If you buy an I Bond in January, for example, it will earn the composite rate in effect at that time. In July, after six months, the applicable interest rate will be the sum of the initial fixed rate of interest and the inflation adjustment announced the previous May. The following January, the process is repeated using the inflation adjustment announced the previous November.

I Bonds are purchased at half their face value; e.g., you pay $25 for a $50 bond but it will not be worth its face value until it has matured. By contrast, electronic bonds are purchased at face value; e.g., you pay $50 for a $50 bond and it’s worth its full value, including accumulated interest, when it’s available for redemption. If you choose paper bonds, you can purchase them at a bank or credit union or use your employer’s payroll deduction plan. Electronic bonds can be purchased online at http://www.treasurydirect.gov/ using your credit card or through a recurring deduction from your personal bank account or payroll deduction plan.

Individuals, corporations, associations, public or private organizations, and fiduciaries can buy Series EE Bonds. You can own U.S. Savings Bonds if you have a Social Security Number and are a resident of the United States, a citizen of the United States residing abroad, or a civilian employee of the United States regardless of residence.

Unlike other securities, minors may own U.S. Savings Bonds. A parent, other relative, or friend can buy a bond for a minor who doesn’t have a Social Security Number. In this case, or if the minor’s Social Security Number (SSN) isn’t known, the purchasers are required to provide their own SSN but do not incur a tax liability.

Registration Options

Registration establishes the ownership of the bonds and who is entitled to redeem them. Savings bonds are owned exclusively by the person or persons named on them. The most common forms of registration are single ownership, co-ownership, or with a named beneficiary. The Social
## Comparison of the Series EE and HH Savings Bonds and the I Bond

<table>
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<th>Features</th>
<th>Series EE Savings Bond</th>
<th>Series HH Savings Bond</th>
<th>I Bond</th>
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<td><strong>Features</strong></td>
<td>Paper bonds issued at 50 percent of face value. (A $50 bond costs $25.) Electronic bonds issued at face value. Paper bonds offered in eight denominations ($50, $75, $100, $200, $500, $1,000, $5,000, and $10,000). Electronic bonds issued in any amount ($25 to $30,000). For paper bonds, Social Security Number annual purchase limit of $30,000 issue price ($60,000 face value). In addition, may purchase $30,000 in electronic savings bonds. Series I purchases do not count toward limit.</td>
<td>As of September 1, 2004, investors are no longer able to exchange EE/E bonds for HH Bonds or reinvest HH Bonds. Previously issued in four denominations at face value ($500, $1,000, $5,000, and $10,000).</td>
<td>Issued at face value.</td>
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<tr>
<td><strong>Interest</strong></td>
<td>Bonds issued after May 1, 2005, earn a fixed rate of interest set at the time of purchase. Bonds issued prior to May 1, 2005, will continue to earn interest according to the terms in effect when they were issued. Rates announced every May 1 and November 1. Guaranteed to reach face value in 20 years. Increases in value monthly, and compounds semiannually. Interest is paid when the bond is redeemed. Earn interest for up to 30 years.</td>
<td>Interest rate is set when bought and at 10 years from the issue date. New issues have been 4 percent since March 1, 1993. No change in face value, and interest rate is set at purchase date. Does not increase in value. Interest is paid semiannually directly to your checking or savings account. No interest is paid for incomplete six-month intervals. Earn interest for 20 years.</td>
<td>Calculated as an earning of a fixed rate of return and a semiannual inflation rate based on CPI-U.</td>
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<tr>
<td><strong>Cashing</strong></td>
<td>Can be redeemed after first twelve months. A three-month interest penalty applies to bonds redeemed during the first five years. Financial institution reports interest earnings (the difference between redemption value and purchase price) on IRS form 1099-INT. Savings bonds are exempt from state and local income taxes. Eligible for tax benefits upon redemption when used for qualified education expenses.</td>
<td>Since HH bonds have not been issued since September 2004, all HH bonds are eligible for redemption without penalty. Interest is reported as income for the period in which it is earned, not when it is received. Any interest income statement (1099-INT) is issued by January 31 of each year and shows the interest earned for the previous year. Not eligible.</td>
<td>Same as EE.</td>
</tr>
<tr>
<td><strong>Security Number</strong></td>
<td>Security Number of the person named on the bond is required. Single ownership means only one person’s name is on the savings bond. Only the owner or his or her authorized representative can redeem the savings bond. On the death of the owner, the bond becomes part of the owner’s estate.</td>
<td>A second registration option is co-ownership, meaning two people are named on the savings bond, each having equal ownership rights to it. Only two co-owners are permitted. Both names are on the bond and connected by the word “or,” as in John Doe or Mary Doe. Either person may redeem the bond without the consent or knowledge of the other, but a co-owner’s name may not be removed without the consent of the other. Upon the death of one of the co-owners, the bond becomes the property of the other co-owner. The third registration option is to name a beneficiary on the bond.</td>
<td>Same as EE.</td>
</tr>
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In this case, the names of the owner and beneficiary will be connected by the initials “POD” (Payable on Death). The owner has sole ownership rights of the bond during his or her lifetime, including the ability to redeem the savings bond and responsibility for federal income taxes on the interest. When the owner dies, the beneficiary becomes sole owner of the savings bond.

Generally, Series EE and Series I Bonds have the same rules for registering, but there are differences in who may own the two series. Series I Bonds may be registered only in the names of individuals and, in some cases, fiduciaries, such as trusts. Series EE Bonds may be registered in these same ways and also in the names of companies, associations, and public bodies.

Rewriting your sentence:

**Redeeming Savings Bonds**

Savings bonds can be redeemed by the person whose name appears as the sole owner or a co-owner. If you are named as a beneficiary, you must present proper identification and a certified copy of the owner’s death certificate.

Bonds can be redeemed at any of the 40,000 financial institutions that the Treasury Department has authorized as paying agents. Any amount of I Bond and Series EE Savings bonds can be redeemed at an institution where you have an account in good standing for at least six months. In general, other financial institutions may redeem no more than $1,000 in savings bonds for noncustomers.

Series HH Savings Bonds must be sent to your servicing Federal Reserve Bank to be redeemed. Your financial institution can help with this.

You may redeem your savings bonds at any time after the twelve-month holding period. Remember, however, if you choose to redeem them before five years from the purchase date, you pay an early redemption penalty equal to the last three months of earned interest.

**Replacing Lost or Stolen Bonds**

If your savings bonds are lost, stolen, or destroyed you can have them replaced. The process will be easier if you have a record of the serial numbers, issue dates, registration information, and the Social Security Number that appears on them. Keep the record in a safe place, separate from the bonds themselves. You can file a claim by writing to Bureau of the Public Debt, Parkersburg, WV 26106-1328. You’ll need to complete form PDF 1048.

**Tax Considerations**

Savings bonds are subject to estate, inheritance, gift, or other excise taxes, whether federal or state.

Any increase above the purchase price is interest and is subject to federal income taxes but exempt from state and local income taxes. If you do nothing, your bond interest is deferred for federal income tax purposes, but you may also choose to report interest each year as it accrues. If you choose to defer taxes, using the cash basis, you must use this method for all Series EE and I Bonds you own or may purchase in the future. You may only switch from the accrual basis to the cash basis with IRS permission. A switch from the cash to the accrual basis may be done without IRS permission.

Under the Education Savings Bond Program, you may be able to exclude some or all savings bond interest from federal income tax when you pay qualified higher-education expenses at an eligible institution or state tuition plan in the same calendar year the bonds are redeemed. Series EE Bonds issued January 1990 and later and all I Bonds are eligible for this program. Your filing status and modified adjustable gross income affect the amount of interest you are able to exclude. See IRS Publication 970 for details.

**Resources**

For additional information, visit the following Web sites:

- http://www.savingsbonds.gov/
- http://www.treasurydirect.gov/


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