

U.S. Savings Bond FAQ

Supplemental training material for the Tax Season 2010 Savings Bond Pilot

Q1: What are US Savings Bonds?

US Savings Bonds are savings instruments for individual savers issued by the U.S. government Department of Treasury. The most common types of savings bonds are Series EE and Series I savings bonds. Only paper Series I savings bonds are offered during this pilot. Series I bonds are sold at face value (a \$50 bond costs \$50), and grow in value for up to 30 years. Both types of bonds stop accruing interest after 30 years.

Q2: What is the current interest rate of the Series I Savings Bond?

The current interest rate of the Series I Savings Bond is 3.36%. This will remain the same throughout the 2010 tax season, but it will change again on May 1st, 2010.

Q3: How is this interest rate calculated?

This interest rate is known as a composite interest rate, and has two components: a guaranteed fixed rate, which does not change over the 30 year period; and a semiannual inflation rate, which is adjusted twice a year, in May and November. See below for how the current interest rate is calculated, and the formula used to compute the composite rate.

Current fixed rate: 0.3%

Semiannual inflation rate = 1.53%

Composite rate = [Fixed rate + (2 x Semiannual inflation rate) + (Fixed rate x Semiannual inflation rate)]

Composite rate = [0.003 + (2 x 0.0153) + (0.003 x 0.0153)]

Composite rate = [0.003 + 0.0306 + 0.0000459]

Composite rate = [0.0336459]

Composite rate = 3.36%

Q4: Will I be charged a fee to buy a Savings Bond?

No. There is no fee to buy a Savings Bond. Further, you will not be charged any fees after you buy the bond, even when you cash it in ("redeem" it).

Q5: Will I get interest every month on a Savings Bond that I buy at the VITA site?

Interest will "accrue" (i.e. accumulate) every month, but it will not be distributed until you redeem the bond. The interest is also compounded every 6 months. This means that every six months you will get interest on both the principal AND the interest for the previous 6 months.

Q6: If I buy a Series I US Savings Bond at a VITA site this season, when can I cash it in (redeem it) if I need the money?

You can redeem your Series I bonds anytime after 12 months. Series I Bonds are longer-term investments; if you redeem an I Bond within the first 5 years, you will lose the last 3 months' interest. For example, if you redeem an I Bond after 18 months, you'll receive only the first 15 months of interest.

Q7: Where can I redeem my Series I savings bond?

Savings bonds can be redeemed at your local bank, credit union, savings & loan or similar institution. However, to be certain, call ahead to ask. You will be asked to present identification and sign the back of each bond you want to redeem, and the financial institution will certify your signature.

Q8: What documentation do I need to redeem my bond?

You need a valid driver's license or other accepted form of identification.

Q9: I am a grandparent and I would like to buy savings bonds as gifts for my grandchildren. How can I do this?

Purchasing a bond as a gift for a child or grandchild is easy, but for Tax Season 2010 you *must* use the Savings Bond Portal to do this. All you need is the name of the child or grandchild. When you purchase a bond at your VITA site, you can have the child or grandchild listed as a "co-owner"; either co-owner may redeem the bond without the other co-owner's participation or consent. You have to provide your Social Security Number to make the purchase, but you do not need the Social Security Number of your child or grandchild. You may order bonds for up to five co-owners.

Q10: When I purchase a bond either for myself or for a child or grandchild, will I get the bond on the spot, or is there a waiting period?

You will not get the bond on the spot. The bond will be mailed to you by the Bureau of Public Debt (BPD). Typically it takes about three weeks to arrive. Again, remember that this not available on the tax form for Tax Season 2010. You must use the savings bond portal to do this.

Q11: At what age can my grand-child cash in (redeem) the savings bonds?

Bonds can be redeemed after the minimum holding period, which is 12 months. A child who is old enough to sign his or her name can go to a financial institution with an adult

and sign the bonds. If a child isn't old enough to sign, his or her parents can sign for the child.

Q12: Can I ever lose money on a Series I US Savings Bond?

No. Series I bonds accrue interest based on a combination of a fixed interest rate and the semiannual inflation rate, known as the composite rate. In the event of deflation, the negative change in the semi-annual inflation rate would reduce the composite rate, but the government would not reduce the rate below zero even during severe deflation. So, because savings bonds are backed by the full faith and credit of the US government, the composite interest rate is guaranteed never to go below zero.

Q13: What happens if I lose my US Savings Bond?

The Bureau of the Public Debt (BPD) is authorized to replace lost, stolen, or destroyed I Bonds. You can file a claim by writing to: Bureau of the Public Debt, Parkersburg, West Virginia 26106-7012. You'll need to complete Form PDF 1048 which is downloadable from www.treasurydirect.gov.