

## ***"Money Sense"***

***By Karen J. Ellenbecker/President  
Ellenbecker Investment Group, Inc.***

***Call for an appointment: 262-938-9060***

***Tuesday's 8:30 a.m. - 11:30 a.m.***

***Thursday's 1:00 p.m. - 4:00 p.m.***

Tuesday January 13, was our first "official" day at Alexian Village. Linda Koch, Julie Ellenbecker-Lipsky and I attended the monthly coffee in the community room. Gary introduced us to everyone, we love our new family and feel very much at home...thank you.

If you would like us to arrange to have your 2003 taxes prepared please call our office to set up an appointment. We would be happy to meet with you in your home and help you organize your tax information and then have them completed by a qualified tax preparer with our team.

Recently when I moved, I came upon some old savings bonds that had been shuffled from one desk drawer to another. The first thing that came to my mind was; what do I do with them and what are they worth? I admit that I had completely forgotten I had these bonds and didn't even consider them as part of my investment portfolio. I had no clue what the bonds were worth, if they were still earning interest and if so, at what rate.

My grandfather and grandmother gave us a \$25 "War Bond" when we visited them each summer in Minnesota. I can still picture the four of us kids lined up on their front porch waiting to receive our bond. That was a very proud moment for them, they liked giving us savings bonds for two reasons. First: because they are backed by the full faith and credit of the U.S. Government, and Second: they could purchase a \$25 savings bond for half their face value. The problem is, you need to hold on to them for 10 to 18 years so they can accrue interest to reach their face value. For this reason I think most people tuck them away in drawers or safety deposit boxes and forget about them. Depending on the series you own and the issue date, I found out that they will continue to earn interest for a maximum of 30 to 40 years

Finding the value of my bonds was easy. Most banks keep a copy of bond redemption tables issued by the Treasury Department. The teller at the bank told me that my bonds had continued to earn interest and were worth more than their face value.

Deciding if I should keep the bonds or cash them in was my next question. In a recent interview with Daniel J. Pederson, author of *U.S. Savings Bonds: A Comprehensive Guide for Bond Owners and Financial Professionals*, I found out that I was not alone in this dilemma. Dan, a former Federal Reserve Bank Savings Bond official said that "Over 55 million Americans collectively hold approximately \$180 billion U.S. Savings Bonds, making savings bonds one of the world's most widely held securities. What is most interesting is that 4 billion of those bonds have stopped earning interest."

I told Dan that when I asked the bank teller what my bonds were earning, she said, "I'm not sure, maybe 4%." According to Pederson, "Determining a bond's current interest rate can be very difficult." He said that in a recent survey of 400 banks, five questions were asked and only 38% answered the questions correctly.

The reason for the confusion is that savings bonds operate according to different rules depending on their series and when they were purchased. For example, two Series E bonds with the same face value that were purchased at different times can come under different rules and different interest rates. Dan also said, "Savings bonds are certainly not a simple investment, yet most people treat bonds as if they are all the same." I thought you might be interested in some common misconceptions related to saving's bonds.

***U.S. Savings Bonds are a bank product.***

Most banks would not consider bonds a money-maker. They handle bonds as a courtesy to their customers. They are a product of the federal government and bank employees rely on information from the government when informing the public about them.

***All series E and EE bonds earn the same rate of interest.***

If purchased prior to May 1, 1995 each bond can have a unique and variable interest rate. The rate for any given bond is determined by the issue date. If purchased on or after May 1, 1995, a series EE bond receives a new short-term market rate every six months for the first five years. After five years the bond receives a new long-term market rate every six months.

***Interest is compounded daily, like a savings account.***

No, interest accrues and is compounded semi-annually. If you cash your bond even one day before a semi-annual credit, you will forfeit up to six months interest.

***At your death your bonds will receive a stepped-up cost basis.***

Many financial professionals and bond owners expect that, as with other investment vehicles, a stepped-up basis applies to U.S. Savings Bonds. This is not the case. In fact there is no automatic stepped-up basis for people who inherit or receive bonds upon the death of another individual.

***Savings bonds don't affect my Estate Plan.***

Yes they do. Estate planning is very complicated. Add the unique tax characteristics of savings bonds to the process and it does not get any easier. When investors cash savings bonds or when they die they increase their adjusted gross income by the amount of the taxable bond interest income. Without proper planning, this additional interest income could cause the taxpayer or their estate a large tax liability.

***You can gift bonds to grandchildren so they can use them tax-free for education.***

Only bonds issued after January 1, 1990 qualify. Taking your name off a bond (assuming you are listed first) would create a taxable event for you.

Some say just "cash them in." I don't believe one answer is right for everyone. If you have savings bonds and would like an analysis done to determine their face value and their current interest rate, you can fill out a simple form and we can determine what strategy is best for you. If you would like a form please call our office at 262-938-9060 and we will mail one to you. We will have these forms available in room L1, by appointment, Tuesdays from 8:30 a.m.-11:30 a.m. and Thursdays from 1:00 p.m.- 4:00 p.m.

*We look forward to seeing you, Karen Ellenbecker*

