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Are Your Old Savings Bonds Still Earning Interest?

Do you, your parents, or elderly relatives have old E bonds, H or HH bonds, or the rare Savings Notes, lying around? If so, it may be time to cash in some of these bonds because they are no longer earning interest, and in some cases could have tax problems.

According to the U.S. Treasury Department, \$12 billion in outstanding U.S. savings bonds no longer earn interest. Are your bonds among them? To answer that question, you need to know a little about how the various savings bonds came into being, how they work, their different maturities, and how they're taxed.

The federal government first began issuing savings bonds, called E bonds, back in the mid-1930s. The bonds were issued in a range of denominations, and citizens bought them at a discount of 75 percent of face value. You paid \$75 for a \$100 bond, for example.

The government stopped issuing E bonds after June 1980 and replaced them with EE bonds, which calculate earned interest slightly differently than E bonds. Investors buy EE bonds at half their face value.



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Investors receive interest from E/EE bonds only when they redeem the bonds. The bonds earn interest up to their "original maturity"—that is, when the accumulated interest and the original price paid for a particular bond total the face value of the bond. But interest payments are automatically extended after that, usually for periods of ten years, until the bond reaches its "final maturity." At that point, the bond quits earning interest. This is where matters get confusing for investors, because the final maturity dates vary. E bonds issued from May 1941 through November 1965 had 40 years to final maturity. As of this writing, nearly all of them have stopped earning interest.

E bonds issued from December 1965 through June 1980, however, have only 30 years to final maturity. As of this writing, all E bonds issued through April of 1975 have stopped earning interest.

The final maturity for all EE bonds is 30 years, and since none are older than July 1980, you have a few more years before they stop earning interest. Do you still own any Savings Notes, also known as Freedom Shares, issued from May 1967 through October 1970 during the height of the Vietnam War? Like E/EE bonds, these bonds were issued at a discount with the interest deferred until redemption. Savings Notes had 30 years to final maturity and no longer earn interest.

H and HH bonds differ from other savings bonds in that investors buy them at face value and the bonds pay out interest in cash semiannually. The government first issued H bonds in June 1952. Those issued through January 1957 had final maturities of 29 years, 8 months. All H bonds issued after January 1957, until HH bonds replaced them in January 1980, have final maturities of 30 years. Again, as of this writing, H bonds issued up to April 1975 have stopped earning interest.



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But HH bonds, which the government quit issuing after August 2004, have final maturities of only 20 years. Consequently, any HH bonds you have that are older than 20 years should be cashed in to get back the original investment (the face value).

Taxes on savings bonds are free of state and local taxes, but you pay federal taxes at your ordinary income tax rate. Because H/HH bondholders pay taxes on the interest as they receive it each year, they don't owe any taxes when they redeem them—the final payment is simply a return of the original principal. But with E/EE bonds and Savings Notes, you will owe taxes on the accumulated interest, assuming you elected to defer reporting the interest over the years, when you redeem them—or when they reach final maturity, even if you haven't redeemed them. This interest income is taxable for the year of redemption or final maturity. If you missed that year—say you now realize some old E bonds you've got lying around the house matured years ago—you may need to file an amended tax return and possibly be subject to a late penalty and interest. Confe with your tax specialist.

For current information on whether any bonds you hold have reached final maturity, go to –

http://www.treasurydirect.gov/indiv/tools/tools_savingsbondcalc.htm