

THINKING AHEAD ABOUT INFLATION? HERE ARE A FEW WAYS TO PROTECT YOURSELF

While the struggling economy has put a vice on inflation, many experts do not expect things to stay that way for much longer. Why? Many economic experts fear the current level of federal spending will inevitably lead to printing more money, and that is regarded as an inflationary solution.

As of late August, the federal deficit was estimated at \$1.58 trillion and expected to increase roughly \$1 trillion more based on the final size of President Obama's healthcare plan. Even if inflation moves slowly, it is not a bad idea to at least start thinking about some savings, spending and investment strategies that take inflation into account. Here are a few:

Refinance, if it makes sense for you: In March, April and May of 2009, mortgage rates were at 50-year lows. While they have largely bounced around in recent months, rates are still very attractive. If you need advice on whether refinancing is right for you, consider contacting a CERTIFIED FINANCIAL PLANNER™ professional who can examine your whole financial picture and determine whether the timing and terms of a refinancing make the most sense.

Consider laddering CDs and other interest-bearing savings vehicles: For emergency funds and other forms of savings, a rising rate environment is actually a good thing. "Laddering" means buying CDs, T-bills or other similar investments consistently, so they will mature on a consistent basis. Like the steps of a ladder, this process allows a saver to deposit money on a specific date each month – for example, the first of the month – so as each month goes by at hopefully higher interest rates, you can build the nest egg faster. The idea is to eventually have a series of CDs or T-bills which mature on a regular basis, which can be reinvested at the current long-term interest rate.

Consider TIPS: Treasury Inflation-Protected Securities (TIPS) are Treasury securities whose principal and coupon payments are indexed to inflation based on the movements of the Consumer Price Index (CPI). Like ordinary Treasury securities, TIPS have a fixed coupon interest rate but principal is adjusted to reflect the inflation rate. If inflation goes up, the amount of principal to be paid at maturity rises. Coupon payments rise along with the principal since the rate is calculated on the principal amount. If your bet goes wrong and there is deflation, you will not lose your principal. There is a floor at par. When rates rise, TIPS lose value, but they tend to lose a little less because of inflation protection. It is generally best to own TIPS in an IRA or other tax-advantaged account because the periodic inventory adjustment is subject to ordinary income taxation at intervals before the bond matures.

I-Bonds might be right for you: Series I Savings Bonds, also issued by the U.S. Treasury, might be worth considering after you see rates finally headed upward. I-bonds are sold with a fixed interest rate, which never changes, plus or minus an inflation adjustment. Some Series I bonds have been paying zero percent interest recently as the inflation component has actually been a *negative deflation adjustment*, erasing the fixed interest rate. It is a good idea to buy I-Bonds when the announced fixed rate is high, because you will be guaranteed that fixed return over the life of the bond plus any additional inflation adjustments later. The fixed interest rate at issuance guarantees a minimum return, plus any benefits from future inflation adjustments. Purchases of I-Bonds are limited to \$10,000 per year per investor, though, in addition to your name, you may be able to buy bonds under the name of your spouse, trust account and your children. Before you start buying, it might be a good idea to talk to your tax professional about the potential impact once you redeem them.

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