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

While the struggling economy has put a vice on inflation, many experts don't 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's 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's 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've largely bounced around in recent months, an economic recovery may mean rates are headed up. 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. A CFP® professional can look at your income, expenses, liabilities and other assets as well as whether your property is adequately insured as replacement costs increase with the rate of inflation.

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'll 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.

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's deflation, you won't lose your principal. There's a floor at par. When rates rise, TIPS lose value, but they tend to lose a little less because of inflation protection. It might be best to



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own TIPS in an IRA or other tax-advantaged account because the periodic inventory adjustment is subject to ordinary federal tax 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 change, plus an inflation adjustment. It's a good idea to buy them when the announced fixed rate is high, because you'll 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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September 2009 — This column is produced by the Financial Planning Association (FPA), the membership organization for the financial planning community, and is provided by John Englin, CERTIFIED FINANCIAL PLANNER™. John is a local member of the FPA and is employed by Lincoln Savings Bank and LSB Financial.