

## Treasury Inflation-Protected Securities (TIPS)

Treasury Inflation-Protected Securities (TIPS) are marketable Treasury securities whose principal and interest payments are adjusted for inflation. Competitive bidding at auction sets the security's fixed interest (or coupon) rate. The interest rate is applied to the adjusted principal amount.

*Like all marketable U.S. Treasury securities, TIPS are backed by the full faith and credit of the United States.*



### Interest and Principal

Interest payments on TIPS are made semiannually. They're based on a principal amount that is adjusted for inflation using the Consumer Price Index for Urban Consumers (CPI-U).<sup>1</sup> We call this process "indexing." We determine the index ratio by dividing the current CPI-U level by the CPI-U level that applied when the securities were issued.

As measured by the index, the principal changes at the same rate as the CPI-U. Since interest payments are a percentage of the principal, the interest amount changes as the principal adjusts.

At maturity, if inflation has occurred and increased the value of the security during its term, Treasury pays the owner the inflation-adjusted principal. On the other hand, if deflation occurred over the life of the security and decreased the security's value, Treasury pays the owner the original face value of the security.

### Buying TIPS

TIPS are available to individuals as well as institutional investors. You can buy TIPS in \$100 increments and in terms of 5, 10, and 30 years. You can buy them directly from the Treasury or through a financial institution or broker. All Treasury securities purchased directly from the Treasury are sold in single-price auctions, which means everyone gets the same price – equivalent to the highest accepted yield at that auction. Securities purchased from a financial institution or broker may or may not have the same price as those purchased directly from the Treasury.

OFFERING CHART			
Treasury Inflation-Protected Securities			
	5-year	10-year	30-year
January		X	
February			X
March		X	
April	X		
May		X	
June			X
July		X	
August	X		
September		X	
October			X
November		X	
December	X		

### Through TreasuryDirect®:

You can set up a secure account directly with the Treasury, then buy and hold securities electronically in a web-based system called TreasuryDirect. Only noncompetitive bids are accepted.



<sup>1</sup> The reference CPI is based on the CPI-U for the third preceding calendar month. (For example, the reference CPI for December 1 is the CPI-U reported for September 1 of the same year. The figure for September is released in October.) The reference CPI for any other day of the month is calculated by a linear interpolation between the reference CPI applicable to the first day of the month and the reference CPI applicable to the first day of the following month.

## Treasury Inflation-Protected Securities (TIPS)

### Buying TIPS (continued)



#### Through a Financial Institution or Broker/Dealer:

Your broker/dealer or financial institution holds the securities on your behalf, and you can arrange purchases and sales through them. Both noncompetitive and competitive purchases are available. These securities are eligible for stripping by authorized brokers/dealers through the STRIPS program.

For guidance on how to buy securities, see our website or call 844-284-2676 (toll free).

### Other Details

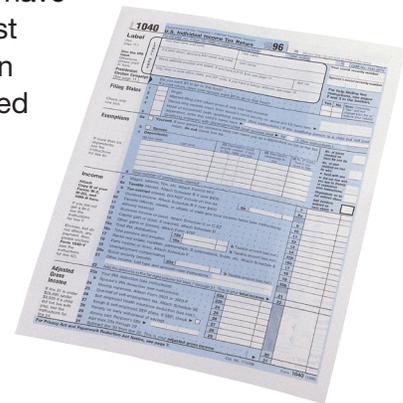
#### TIPS Are Liquid.

You can buy and sell TIPS in the secondary market before maturity. Of course, the value of a security sold in the secondary market before maturity is subject to market valuation. This may result in either a capital gain or loss, depending on the prevailing market price at the time of the sale.

#### Tax Issues.

Earnings from TIPS are exempt from state and local income taxes, as are other U.S. Treasury securities. TIPS owners pay federal income tax on interest payments the same year they receive those payments, and on growth in principal in the year it occurs. Investors holding TIPS will have two tax statements each year: an IRS Form 1099-INT showing the interest paid on the security and a 1099-OID<sup>2</sup> showing the increase or decrease in the security's principal value. (NOTE: TreasuryDirect customers are notified when their statements are ready, and they can then print a copy from their online account. Legacy Treasury Direct customers receive their tax statements by mail.)

It's possible to get a 1099-OID with a negative amount. In this case, it means deflation occurred after you bought the TIPS, which reduced the security's principal below par value – what you paid for it – or below what it was during the last tax year. We only report negative OID amounts to you, not to the IRS.



<sup>2</sup> "OID" stands for "Original Issue Discount." For information on how to report the OID on your taxes, please consult IRS Publication 550.

You can get additional information on TIPS by calling 844-284-2676 (toll free) or, outside the U.S., +1-304-480-6464, or by visiting our website at [www.treasurydirect.gov](http://www.treasurydirect.gov).

For official regulations, please see the Uniform Offering Circular, 31 CFR Part 356.