



Money

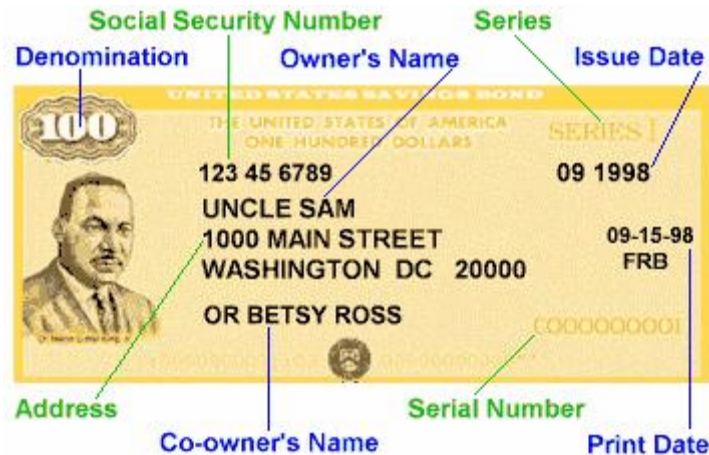
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By Nancy Wilkinson

Lesson 15 Reading US Treasury Bonds

You might have heard the word bond before. President Franklin D. Roosevelt placed the first order for a \$500 Series E Savings Bond in a radio broadcast on April 30, 1941. Bonds are used to loan money to the government. During World War II, many Americans bought war bonds to help pay for the war. Here is a picture of a bond (courtesy the US Treasury Department).



Anyone who has a social security number and is a resident of the United States can buy a bond. It doesn't matter whether you live in the United States or not. You just have to be a resident. People buy bonds because they are easy. They can be purchased at most credit unions and banks.

Most people buy Series EE or Series I bonds. When someone buys a Series EE bond, they pay only 1/2 of the purchase price. For example if they wanted to buy a bond with a face value of \$100, they would pay \$50. Interest is added each month until the bond reaches its face value. The owner does not get any money until the bond is cashed in. Bonds are available through financial institutions in \$50, \$75, \$100, \$200, \$500, \$1,000, \$5,000 and \$10,000 denominations. Series EE bonds earn interest at market-based rates for up to 30 years. That means that their interest rate changes based on how well the economy is doing. For example, a bond earning an average of 5% interest per year would reach face value in 14 1/2 years, while a bond earning an average of 6% interest per year would reach face value in 12 years. If the interest rates are not good enough for a bond to reach face value after 17 years, the Treasury department will go ahead and give you face value anyway.

Series I bonds are purchased at their face value. They earn interest based on the economy for up to 30 years. You cannot cash a bond in until six months after the issue date. If you do redeem it before it is five years old, you lose the last three months of interest. So, it is best to buy a Series I bond and keep it for at least five years.

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Activity 1:

Your grandmother bought a \$1,000 Series I bond for you when you were born. How much is it worth today?

1. What is the month and year you were born? _____
2. What is today's date? _____
3. Price of bond: (Your grandmother purchased a \$1,000 savings bond.) \$1,000.00
4. Current Interest Rate: (Go <http://www.savingsbond.gov> to find the answer. If this is unavailable, assume the interest rate is 7%.) _____
5. How many years since you were born? _____
6. How many months since your last birthday? _____
7. Multiply the bond amount (problem 3) times the interest rate (problem 4). _____
8. Multiply the amount of your savings bond (problem 3) times 0.005833. (This decimal was determined based on the annual rate of 7% interest divided by the number of months in a year (12). This is how much your bond is growing each month. _____
9. Multiply the answer you got in problem 8 times the number of months since your last birthday (problem 6). _____
10. Add the answers in problems 3, 7 and 9. This is how much your bond is worth today! _____

Activity 2:

What if you saved the bond and then cashed it in when you graduated from high school. How much would it be worth at 7% interest? Use the chart on the next page to help you figure out the bond's worth. Make a line graph of the information.

Use this chart to figure your interest rate on your savings bond each year at an interest rate of 7%.

1	2	3	4
Age	Beginning Year Amount (How much did you have at the end of the previous year?)	Interest (Multiply the previous beginning year amount by .07)	Ending Year Amount (Add columns 2 and 3)
0	\$1,000	\$1,000 * .07 = \$70.00	\$1,070
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			

a) At what years did the amount double?

The rule of 72 means to take 72 divided by the interest rate. It will tell you how many years it will take for an amount to double. Is this true?