

TIPS Ladder Q&A

Rick Miller's [TIPS Ladders webinar](#) generated some excellent questions. We created this document so Rick could address the questions he didn't have time to answer. We also wanted to provide you with a tangible resource to refer to as needed, ensuring that you get the most out of the webinar.

Setting Up and Managing a TIPS Ladder



How does an individual buy / create a TIPS Ladder?

We recommend that you design your TIPS ladder to fund future expenses. The first step is to add up those expenses year by year – you may want to have a table of years in one column and the expenses you want to fund in the next.

Would you please recommend a source for an Excel spreadsheet to track the expected interest and inflation adjusted principal amount of a TIPS ladder?

A quick internet search for TIPS ladder spread sheet will identify several you might want to try. Unfortunately, we haven't used any of them and can't recommend one as opposed to another.

What's the best way to go about buying individual TIP securities for my ladder?

You can buy individual TIPS at auction (when they are issued) at www.treasurydirect.gov or through a bank or brokerage account. You can buy individual TIPS in the secondary market in your (IRA or taxable) brokerage account.

For individual TIPS is the ideal position to hold until maturity?

Holding the individual TIPS in your TIPS ladder until maturity ensures that you will receive the principal and interest cash flows that you expected.



TIPS Ladders Alternatives



Would you ever use I-Bond ladders instead?

I-Bonds typically won't work as well as individual TIPS for a ladder for several reasons:

1. I-Bond purchase quantities are limited to \$10,000 per year. TIPS purchase quantities are unlimited.
2. I-Bonds are not available on the secondary market. To build a 30 year ladder would take 30 years (you'd have to start at your age 40 to buy I-Bonds that mature at your age 70).
3. Real interest rates on I-Bonds are not set in the market. On May 7, 2024, real interest rates on I-Bonds are 1.3% vs 2.3% for 30 year TIPS.

In terms of safety is there any advantage to doing a CD ladder instead of TIPS? Isn't it a sure bet?

CDs do not provide protection against inflation surprises. In addition, CDs typically have maximum maturities of 5 to 10 years – not well suited to funding expenses more than 10 years in the future.

Interest rates, TIPS, and TIPS performance



Is interest risk for TIPS mutual funds due to nominal rates or real rates?

TIPS prices change in response to changes in real interest rates. You may see that TIPS prices change when nominal rates change. This is because nominal rates combine real interest rates and inflation – nominal rates may change when real rates do.

Why do TIPS have a relatively high real interest rate today when the real rates were lower a few years ago?

Real interest rates have risen since a few years ago. The most obvious possible reason is that the Federal Reserve has raised the interest rate it controls (the Federal Funds rate) in an effort to reduce inflation. However, real rates change for many reasons – economists are often unsure why even after a lot of research many years after the fact.

What happens to TIPS principal when the inflation rate turns negative?

TIPS principal can adjust downward when the price level falls. However,

1. Your purchasing power is still preserved – you will still receive the purchasing power you expect when the bond matures.
2. TIPS principal value cannot fall below the issue face amount (\$1,000). If deflation were to imply a price level adjusted face amount lower than the issue face amount, you would receive more than the purchasing power you expect when the bond matures.

If you think that inflation risk > deflation risk, wouldn't you always buy TIPS?

TIPS protect against price level uncertainty. We recommend buying TIPS as an inflation / price level hedge, not as a tool for speculating about the direction of price level movements.

Is there a history that TIPS will always outperform nominal treasuries?

TIPS will not always outperform nominal Treasuries. Nominal Treasury returns are real rates plus the inflation rate that the market anticipated at issue. TIPS returns are real rates plus the inflation rate that occurred. If the inflation rate the market expected is higher than the rate that occurs, nominal Treasuries will outperform TIPS.

Why a TIPS ladder instead of a TIPS mutual fund?



Buy tips directly not via a fund? Don't buy tips index fund!!

A TIPS ladder protects the value of your cash flow against unexpected real interest rate increases. A TIPS mutual fund does not.

Of your two ladders, which produces the most income over the lifetime of retirement?

There was only one TIPS ladder in the webinar. If real interest rates rise, the ladder produces more cash flow than the index fund. If rates decline, the fund produces more cash flow. If rates stay the same, the ladder and the fund produce the same cash flow.



TIPS and taxes



You said yes, TIPS are taxable (not by state). Is it reported income or is it a basic write off?

The IRS classifies TIPS interest as interest income and principal adjustments as Original Issue Discount income. Both are taxable at the Federal level and not at the state level.

What should I do?



Should I put in all my money in TIPS?

TIPS are the lowest risk asset available in this country. That said, structuring your investment portfolio requires assessing many factors, including (but not limited to!) the cash flows you wish to fund, your comfort with investment risk, and the amount of surplus in your financial plan.

If I plan on deferring Social Security to age 70, does it make sense to build a TIPS ladder for 65 - 70 years or earlier when I retire?

Many people build a TIPS ladder to fund the cash flows that Social Security retirement benefits will provide during the deferral period before age 70. Whether it makes sense for you will depend on your preferences and circumstances.