



Archaic bonds tough to get rid of

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By **Karin Price Mueller/The Star-Ledger**

Q. My mother is 84 and has \$30,000 in maturing HH bonds. They will not earn interest after March 2011. Is there another bond they can be rolled over to without cashing them in and having to pay taxes on the amount?

—*Concerned child*

A. There's not a lot of action for HH bonds these days.

Since October 1982, H and HH bonds have only existed as a means of exchange for E and EE savings bonds, said John Tarantino, a senior financial advisor with Merrill Lynch in Westfield.

He said the main advantage of the "exchange" is the deferral of the accumulated or deferred interest that the E or EE bonds have earned.

He offers this example:

If you had bought a \$1,000 EE bond for \$500 and its value was \$800 five years later, you could "exchange" that \$800 EE bond for an HH bond worth the same amount. You would not be required to pay taxes on the \$300 of earned interest upon the exchange, but you would pay tax on the accumulated interest when the HH bond matures.

"As you hold the 'exchanged HH' you earn a Treasury set rate of interest every six months," he said. "The maximum maturity term of the HH bonds is 20 years."

So for your mom, her 20 years seem to be up this month. While you can exchange EE and I bonds at most banks and credit unions, you can't do that with HH bonds. You can mail them to:

Department of the Treasury

PO Box 2186

Parkersburg, WV 26106-2186

Your mom should have her money within two or three weeks. She would also receive a 1099 form for all the deferred interest, which Tarantino said is exempt for state but not for federal taxes.

There are no similar bonds your mom could roll the money into to defer the taxes further, but there are some safe and sound investment options available to her.

If your mom likes the security of bonds but she doesn't want to buy one from scratch, Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains, suggests the following FDIC-insured accounts: American Express High Yield Savings, which currently yields 1.3 percent; Capital One online savings, which currently yields 1.25 percent with a \$1,000 minimum balance; Discover Online Savings Bank, which currently yields 1.2 percent with a \$500 minimum balance, and; ING Direct Orange Savings Account, which yields 1.1 percent with no minimum balance.

Your mom should consult with her tax advisor for the specifics surrounding her situation.

—Karin Price Mueller

E-mail your questions to askbiz@starledger.com.

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