

TIPS In Depth

How TIPS Are Tied to Inflation

Treasury Inflation-Protected Securities (TIPS) are marketable securities whose principal is adjusted by changes in the Consumer Price Index. With inflation (a rise in the index), the principal increases. With a deflation (a drop in the index), the principal decreases.

The relationship between TIPS and the Consumer Price Index affects both the sum you are paid when your TIPS matures and the amount of interest that a TIPS pays you every six months. TIPS pay interest at a fixed rate. Because the rate is applied to the adjusted principal, however, interest payments can vary in amount from one period to the next. If inflation occurs, the interest payment increases. In the event of deflation, the interest payment decreases.

At the maturity of a TIPS, you receive the adjusted principal or the original principal, whichever is greater. This provision protects you against deflation.

Treasury provides [TIPS Inflation Index Ratios](#) to allow you to easily calculate the change to principal resulting from changes in the Consumer Price Index. To learn more about determining how inflation adjustments affect your security, please see [TIPS: Rates and Terms](#).

Methods of Buying TIPS

TIPS are sold in TreasuryDirect, and through banks and brokers. **NOTE:** TIPS no longer are sold in Legacy Treasury Direct, which is being [phased out](#).

The price of a TIPS can be less than, equal to, or greater than the face value. For a full discussion of the price of a TIPS, see [TIPS: Rates and Terms](#).

You can bid for TIPS in either of two ways:

- With a **noncompetitive bid**, you agree to accept the yield determined at auction. With this bid, you are guaranteed to receive the TIPS you want, and in the full amount you want.
- With a **competitive bid**, you specify the yield you are willing to accept. Your bid may be: 1) accepted in the full amount you want if your bid is less than the yield determined at auction, 2) accepted in less than the full amount you want if your bid is equal to the high yield, or 3) rejected if the yield you specify is higher than the yield set at auction.

To place a noncompetitive bid, you may use TreasuryDirect, a bank, or a broker.

To place a competitive bid, you must use a bank or broker.

Key Facts:

- TIPS are issued in terms of 5, 10, and 30 years.
- The interest rate on a TIPS is determined at auction.
- TIPS are sold in increments of \$100. The minimum purchase is \$100.
- TIPS are issued in electronic form.
- You can hold a TIPS until it matures or sell it in the secondary market before it matures.
- In a single auction, a bidder can buy up to \$5 million in TIPS by non-competitive bidding or up to 35% of the initial offering amount by competitive bidding.