

# A Comparison of Inflation-Indexed Fixed Income Securities

	INFLATION-PROTECTED INTERNOTES (IPIs)	CERTIFICATE OF DEPOSIT: INFLATION PROTECTED (CDIPs)	TREASURY INFLATION-PROTECTED SECURITIES (TIPS)
<b>Description</b>	These bonds pay a monthly coupon that consists of two parts: a fixed amount, stated at issuance, plus an inflation-adjustment amount, calculated monthly-based on the year-over-year change in the Consumer Price Index (CPI).	These certificates of deposit calculate and pay interest semi-annually based on a principal amount adjusted for inflation using the CPI. At maturity, additional interest is paid equal to the total increase, if any, of the inflation-adjusted base over the original investment.	These Treasury bonds pay a semi-annual fixed coupon, set on auction date. This fixed coupon is then applied to principal, which fluctuates in response to changes in CPI-U*.
<b>Backing/Guarantee</b>	Fully guaranteed by the corporate issuer	Principal is backed by the full faith and credit of the U.S. government through FDIC insurance up to \$100,000. In addition, Federal law provides up to \$250,000 in deposit insurance coverage for self-directed retirement accounts, such as Individual Retirement Accounts (IRAs)	Backed by the full faith and credit of the U.S. government
<b>Price</b>	Purchased at par (\$1000)	Purchased at par (\$1000)	Priced in \$1000 denominations whose price is adjusted to reflect auction results
<b>Principal Amount</b>	\$1000	Variable	Variable
<b>Payment Frequency/ Coupon Adjustment</b>	Paid and reset monthly	Paid and reset semi-annually	Paid semi-annually, reset daily
<b>Tax Implication</b>	Interest is taxable	Interest is taxable	Interest is taxable (both real and unrealized); exempt from local and state taxes
<b>“Phantom Tax”</b>	No	Yes	Yes
<b>Liquidity</b>	Secondary market	Secondary market	Secondary market
<b>Survivor’s Option</b>	Yes – Death Put	Yes – Death Put	No
<b>Floor/Cap</b>	Minimum coupon may be set at issuance/ no maximum coupon	Minimum coupon may be set at issuance/no maximum coupon	Minimum coupon rate set at issuance/no maximum coupon
<b>Considerations</b>	<ul style="list-style-type: none"> <li>Investors will receive par value at maturity.</li> <li>In a declining inflation rate environment the coupon payment will decrease. If there is a minimum coupon set at issuance, the decrease may be limited to the floor amount.</li> <li>If the CPI-U index increases, the coupon will increase as the monthly change in annual CPI is added to coupon rate.</li> <li>If the CPI-U index decreases, the fixed coupon will decrease by the percentage decline. This decrease may be limited if the IPI has a floor.</li> </ul>	<ul style="list-style-type: none"> <li>Inflation adjustment to principal is taxed as interest in the year in which the adjustments occur, even though these principal adjustments will not be paid until maturity.</li> <li>The fixed interest rate on CDIPs will typically be somewhat lower than traditional CDs of comparable maturity because the CDIP is expected to pay additional income on the inflation adjusted principal amount at maturity.</li> <li>If CPI increases, the principal balance will increase. Additionally, the coupon, which is based off of the principal balance, will also increase.</li> <li>If the CPI decreases, the CDIP may underperform traditional CDs and the total amount of interest paid during the holding period will be reduced.</li> <li>The final payment will never be less than the original amount invested.</li> </ul>	<ul style="list-style-type: none"> <li>Inflation adjustment to principal is taxed as interest in the year in which the adjustments occur, even though these principal adjustments will not be paid until maturity.</li> <li>In a declining rate environment, the principal may decline, which will affect the coupon paid.</li> <li>The inflation-adjusted principal is not paid until maturity.</li> <li>If CPI increases, the principal balance will increase. Additionally, the coupon, which is based off of the principal balance, will also increase.</li> <li>If CPI decreases, the principal balance will decrease. Additionally, the coupon, which is based off of the principal balance, will also decrease.</li> <li>The final payment will never be less than the original amount invested.</li> </ul>



**RBC Wealth Management™**

*For more information please contact the Agency desk at (212) 703-6313*

Source for Fannie Mae: [http://www.fanniemae.com/markets/debt/pdf/offering\\_notes\\_082704.pdf](http://www.fanniemae.com/markets/debt/pdf/offering_notes_082704.pdf)

Source for Freddie Mac: [http://www.freddiemac.com/debt/pdf/fnotes-circular\\_040204.pdf](http://www.freddiemac.com/debt/pdf/fnotes-circular_040204.pdf)

*RBC Wealth Management is a Trademark of Royal Bank of Canada.*

AgencySrvrs.doc (05/05)