

## **U.S. Savings Bonds**

At the end of each month, the payroll offices for the A&M System members act to purchase the U.S. Savings Bonds for those employees who have elected to participate in this program via payroll deductions. The payroll offices prepare remittances to be made to a Federal Reserve Banking System (FRB) and the FRB generates the actual savings bond for an employee. Remittance must be made no later than the last working day of the month, during which the deduction was withheld, for the bond to have an issue date of that month. Otherwise, the bond will have an issue date of the following month. This impacts the maturity date of the bond and how quickly the employees earn interest and have access to the money.

There are two bond purchasing processes used by members of the A&M System. The simpler system allows for the processing of relatively few bonds by the employer. This option allows the payroll office to submit paper documents to request the generation of the bonds for their employees. The payroll office actually only submits changes to the FRB, otherwise, the FRB assumes that the Bonds to be processed for the current month are the same as the previous month. This simplifies the paper handling and processing requirements on their end. Because of the nature of the process, there is no need to contact the B/P/P Operations Center should a correction need to be made prior to submitting the bond requests to the FRB. This change can be made directly to the FRB in Minneapolis, Minnesota with the processing request. Currently, the payroll offices for TAMU-  
Texarkana and TAMU-Commerce use this procedure.

The second process involves the generation of a dataset that is loaded by B/P/P to file depot. The payroll offices should download the file from file depot and then upload the file to [WWW.SAVINGSBONDS.DIRECT.GOV](http://WWW.SAVINGSBONDS.DIRECT.GOV). Because of timing, these datasets are generally produced without payroll office request following the generation of the month-end reports. Should there be a problem in the remittance amounts, the payroll office should contact the Production Control section of the B/P/P Operations Center and identify the nature of the problem. The Production Services staff will then make the necessary corrections to the data and generate a new bond remittance file and report.

Both US Saving Bond purchase processes require that the money be forwarded to the FRB for deposit by the last working day of the month. The actual generation of the bonds may not take place until the following month. The key is the date the funds are received by the Federal Reserve Banking System.

### **Automated Purchases of U.S. Savings Bond through Payroll Deduction**

Through automation of the procurement of United States Savings Bonds from the Federal Reserve Bank in Kansas City, Missouri, the current activities spent on the purchasing of Bonds are greatly reduced. The following information should be reviewed and followed.

As an alternative to the automated procurement, for institutions and agencies with less than 25 bond purchases a month, the Federal Reserve Bank in Minneapolis, MN offers a manual procurement process. This process is currently utilized for the purchase of U.S. Savings Bonds for TAMU -  
Texarkana (N) and TAMU - Commerce (R).

#### **Automated Process**

The following steps outline the process that should be followed by the payroll offices to successfully purchase the US Savings Bonds for the employees they serve.

1. Bond purchasing and status reports are generated by the BPP Operations Center as part of the normal month-end processing.
2. Check the reports and verify that the information is correct. Match the total amounts from the Bond Purchases Recap with the appropriate total amounts on the Status Report. Compare the deduction amounts from the Bond Reconciliation Report with the total deduction amount on the Status Report. If you have a refund, make sure the refund amount has zeroed out the ending balance on the Status Report. A refund should be made if the bond deduction code is set to **N** and a balance exists. If you wish to bypass the bond deduction for a single period, use the stop date on the Bond Screen.
3. If the reports are not correct, do the following:
  - a. Make sure the reports belong to your payroll office (work station).
  - b. If they are your reports, find the problem. The file should not be transmitted until the reports are reconciled and balanced. Items to look for include new employees transferring from another work station, existing employees transferred to another work station, extra deductions, cancellations, etc.
4. If the reports are correct, do the following:
  - a. Follow your business offices processes for handling the US Saving Bond payroll deduction check to purchase the bonds. The State Vendor I.D. Number is 1-440-54-5874-7. Most likely, these check will be the basis for depositing the funds into an account for the FRB to sweep.
  - b. Are you converting any bonds? (See Important Notes - Bond Conversion) YES - Make notes on the Bond Purchases Recap of the bonds that are to be split/converted. Using the Summary Report that is to be mailed to the FRB, make sure the total amounts are the same. Then check to see that more bonds are being purchased on the Summary Report than the Purchases Recap Report. Proceed to 4c.  
NO - Proceed to 4c.
  - c. Proceed to process the bond file from File Depot.
5. Submit the Bond file to the Federal Reserve Bank (except for those using the manual procurement process) through the FRB web interface, Saving Bond Direct. Once submitted, the FRB will generate an ACH transaction for payment based on your submission. No further action is required by the member.
6. The bonds will be mailed to the employees participating in this program by the Federal Reserve Bank.

## **Important Notes**

The state abbreviation code on the Bond Screen of the Employee File must be the proper code set up by the United State Postal Service. The FRB will also check to make sure the Zip Code belongs to that state. If either is incorrect, the bond file will not be processed and you will have to re-submit.

The Bond Owner Social Security Number on the Bond Screen must always be present, numeric, and cannot contain all the same number. Example: 999999999 and 000000000 are not allowed. We cannot purchase bonds for an individual unless we have his/her Social Security Number. If this happens, the file will not be processed and you will have to re-submit.

The Bond Owner Name must always be present on the Bond Screen and contain no punctuation or titles. Enter this name the same way you do for the Employee File. Format: Last Name (space) First Name (space) Middle Initial. (No commas, hyphens, apostrophes, etc.)

If the Beneficiary/Co-owner indicator is "B" or "C" on the Bond Screen, a name must be entered in the name field of the Bene/Co-owner section. The Beneficiary/Co-owner can **not** be the same as the Bond Owner. The FRB will reject this and you will have to re-submit.

If you have problems with bonds (delivery, lost, returns, etc.) call the Kansas City FRB at **1-800-333-2919** and ask for the "Payroll Department". Have your company identifier code, the Bond Owner SSN, and your reports handy. You will need them in order for them to expedite the process.

## **Bond Conversion**

This facility is designed to allow employees to purchase more than two U.S. Savings Bonds. It is designed to take the deduction data from one of the bond deduction segments on the Employee File and split the deduction into however many bonds have been entered into this facility to be passed onto the Federal Reserve Bank for the actual generation of the bonds. There are two very important restrictions that **MUST** be followed: (1) the new bonds generated must all be in the same denomination and (2) the bond deduction amount to be taken each month **MUST** be the purchase value of all the bonds to be purchased (i.e., there cannot be any accumulation of bond deductions for purchases in subsequent months).

For example, an employee wants to purchase three \$100 bonds each month. One method to accomplish this would be to set up the first bond deduction on the Employee File bond deduction screen to purchase one \$100 bond and set up the second bond deduction bond on the Employee File bond deduction screen to purchase a \$200. The payroll work station would then fill out and submit a BOND REDISTRIBUTION REQUEST form to the B/P/P Operations Center instructing the Production Control area to set up a bond conversion record that would split the \$200 bond deduction into two \$100 bond purchases, each may be made out to different bond owners.

Again, the total of the bond deduction amount **Must** be enough to cover the purchase value for all of the bonds entered into this facility (i.e., no partial bonds or leftover balances are allowed using this facility).

Contact the B/P/P Operations Center if more information on Bond Conversions is needed

## **Questions and Answers**

**Q.** How long does it take for bonds to mature?

**A.** It takes 12 years for the bonds to mature to face value. They may mature sooner if interest rates rise.

**Q.** What interest rate is paid on bonds?

**A.** Guaranteed 6% if held for 5 or more years.

Fixed sliding scale for first five years (November, 1986)

After 6 months up to 1 year - 4.16

After 1 year up to 1.5 years - 4.27

After 1.5 years up to 2 years - 4.43

After 2 years up to 2.5 years - 4.64

After 2.5 years up to 3 years - 4.82

After 3 years up to 3.5 years - 5.01

After 3.5 years up to 4 years - 5.26

After 4 years up to 4.5 years - 5.5

After 4.5 years up to 5 years - 5.76

\* There may be certain economical conditions that may allow a higher interest rate to be paid before maturity is reached. Each individual would have to examine his or her condition in order to determine if it is profitable to sell early and buy younger bonds.

No penalties are charged for cashing in before maturity date.

The 6% can change every six months. This rate is based on 85% of all Treasurer Securities.

**Q.** When is the Federal Income Tax paid?

**A.** You will receive a Form 1099 when you cash in the Bond and you will file this with you federal income tax return.

**Q.** What steps need to be taken to cancel/re-issue a bond?

**A.** File a Lost Bond Claim through the FRB in Kansas City.

**Q.** Who can cash a bond if a co-owner is listed?

**A.** Either person listed on the bond as a co-owner may cash the bond.

**Q.** Who can cash a bond if a beneficiary is listed?

**A.** Only the owner unless deceased. If deceased, the beneficiary must provide a death certificate to cash bond.

**Q.** How much can you have deducted?

**A.** \$15,000 per year.

**Q.** Do you have to have a co-owner or beneficiary?

**A.** No - But if you die without a beneficiary, the bond becomes part of the deceased's estate and ownership will be determined by State probate laws.

**Q.** How long do you have to wait before you can cash a bond?

**A.** Six months after issue date.

**Q.** What do you do to use bonds for a child's education?

**A.** The parent's name must appear on the bond as the owner. The child's name may only be listed as the beneficiary, but does not have to be. When the bond is cashed in, a special IRS Form will be filed. This only applies to tuition and receipts must be presented when the forms are filed.

**Q.** Can you buy more than one (1) bond?

**A.** Yes - Up to \$15,000 per year. The total number of bonds purchased is not an issue.

**Q.** Can bonds be mailed to someone other than an employee?

**A.** Yes, as long as they live within the United States.

**Q.** Are bond proceeds taxed when redeemed?

**A.** Yes, unless they are to be used for a child's education and all the conditions for tax exemption are met.

**Q.** Are bond deductions pre-taxed?

**A.** No.

## **U.S. Saving Bond Month-end Processing Considerations**

### **Bond Deduction Code Considerations**

The Deduction Code (DED-CD) for the US Savings Bond payroll deduction controls both the taking of a bond deduction during payroll processing AND the purchasing of bonds made during month-end report processing. As a general rule, **never make changes in the bond deduction code between the period when the payroll deduction is made (part of payroll calculation process) and the month-end report processing.** For example, for a monthly paid employee, if the monthly payroll is processed on the 18<sup>th</sup> of the month and the month-end processing occurs on the 25<sup>th</sup>, no changes should normally be made to the Bond DED-CD for monthly paid employees during this period. For biweekly paid employees, if the first biweekly payroll for the month is processed as early as the 29<sup>th</sup> of the preceding month (with a pay date of the 1<sup>st</sup> for the new month) and the month-end processing occurs on the 25<sup>th</sup>, no changes should normally be made to the Bond DED-CD for the biweekly paid employees during this period.

If changes are made during this period, review all of the month-end bond reports carefully to insure that the desired outcome of the bond reporting occurs as expected for the employee. This includes the following reports:

- Bond Purchases Recap Report
- Bond Deduction Refunds Report
- Bond Purchasing Status Report
- Bond Purchasing Error Report

Depending on other payroll activity and other changes occurring to the employee's records in the Employee File, these reports may also be affected. This is especially true should the employee be ending employment with the A&M System or if the employee is transferring between two members of the A&M System.

If an employee is changing positions that results in a change of the work station code there must be coordination between the two work stations to insure the financial integrity of the purchases, refunds and/or transfer of bond balances for both the employee and the bond clearing accounts of the payroll work stations involved. The work station code recorded on the Employee File when the month-end reporting occurs determines where ALL bond activity for the month is reported, regardless of the work station code on the transactions when the bond deductions were made. Purchases will be made as if the new work station has been responsible for the entire bond reporting for this employee since he first started having bond deductions made. If the work station the employee is transferring from has a remaining balance for a partial balance from previous months or a balance for deductions this month (biweekly paid employee), then the work station needs to generate a check payable to the new work station to move the balance of the bond deductions to the new work station for that employee.

In an ideal world, the payroll deduction for bonds for an employee is the exact amount needed to buy a bond each month. In this case, there is no left over balance each month and the deductions made are the exact amount to complete the purchase of the bonds each month. Most employees do not live in the ideal world.

## **Bond Reports**

### **Bond Purchases Recap Report**

This report details the purchases that are to be made for the month being processed. For an entry to appear on this report, the employee must have a DED-CD of **Y** and the bond deduction accumulation amount must be greater than or equal to the bond cost amount.

### **Bond Deduction Refunds Report**

This report details those records that have a bond deduction accumulation amount greater than zero with a DED-CD of **N**. The employee will remain on this report until the refund is processed through payroll (as a negative deduction or a refund) or the payroll work station notifies the B/P/P Operations Center that the refund has been processed manually (through the accounting system) and the bond deduction accumulation amount should be changed to zero.

### **Bond Purchasing Status Report**

This report details all employees with some type of bond deduction activity in the month. The report shows the balance brought forward from the previous month, the new deductions made for the month being processed, any purchases being made for the month being processed and a new ending balance. Again, the assumption is that the payroll work station code detailing the employee's purchase was also the work station that took the payroll deduction originally. Otherwise, funds should be transferred to cover the amount of the purchase(s).

### **Bond Purchasing Error Report**

This report identifies employees who appear to have a significant problem relative to bond deductions. For the most part, these employees have a problem (either equal to zero or has a negative value) in one or more of the following fields: (1) the FYTD deduction amount, (2) FYTD purchase value, (3) bond deduction accumulation amount or (4) the bond cost.

### **Bond Reconciliation Report**

This report is helpful when there is a discrepancy between the deductions listed on the Bond Purchasing Status Report and the bond deductions on the month-end Payroll Fund Report. It details

the actual employee deductions taken during the month by a work station. The report identifies deductions that need to be transferred to another work station, if no purchase has been made for that employee on the Bond Purchases Recap Report for the month and sufficient funds were available for purchases. The employee should be listed in the Bond Purchases Report of the work station to which the employee transferred.