

[Home](#) / [Store](#) / [Treasury Bonds Guide: Earn Safe Government-Backed Returns on Your Cash](#) / Complete Guide

Complete Guide

Treasury Bonds Guide: Earn Safe Government-Backed Returns on Your Cash

Treasury securities are the cleanest cash-and-bond instrument most individual investors can buy: backed by the U.S. government, available in predictable maturities, and exempt from state and local income tax. But the menu matters. T-Bills work differently from notes and bonds, TIPS react differently to inflation, and I-Bonds live in a separate TreasuryDirect system with their own purchase limits and redemption rules. This guide shows how to choose the right Treasury for the job, compare yields against bank products on an after-tax basis, and build a practical T-Bill ladder for money you cannot afford to speculate with.

1. Foundation

Treasuries come in several distinct instruments. Treasury bills mature in 4, 8, 13, 17, 26, or 52 weeks and are sold at a discount to face value, so you buy for less than 100 and receive 100 at maturity. Treasury notes usually cover 2 through 10 years and pay a stated coupon every six months. Treasury bonds extend farther, commonly 20 or 30 years, and carry more interest-rate risk because price sensitivity rises with maturity. TIPS add an inflation component by adjusting principal with the Consumer Price Index, while I-Bonds combine a fixed rate and inflation rate but can only be bought through TreasuryDirect and are meant more for savings than for trading.

The key use case drives the instrument choice. Cash you need in the next year usually belongs in T-Bills or a ladder of short bills because price fluctuation is minimal if held to maturity. Money that must preserve purchasing power over a longer horizon may be better matched with TIPS. Long notes and bonds are not cash substitutes; they are interest-rate bets with more duration risk, which means market value can fall hard when rates rise even though the bonds still pay and mature eventually. Many investors make

avoidable mistakes simply by buying a long Treasury because the quoted yield looks appealing without matching the maturity to the spending date.

Taxes are a real advantage. Treasury interest is subject to federal income tax but exempt from state and local income tax, which matters most in high-tax states. A 5.2 percent T-Bill yield can beat a 5.2 percent bank CD after tax if your state rate is significant, because the CD interest is usually taxed by the state while the Treasury is not. For someone in a 6 percent state bracket, that state-tax exemption turns a nominally equal yield into a higher after-tax yield on the Treasury. You do not need a massive portfolio for this to matter. Even a modest emergency fund can benefit when short-term rates are competitive.

Buying method also changes the experience. At auction, you can buy new-issue Treasuries through TreasuryDirect or many brokerages with no bidding expertise by using the noncompetitive option, which means you accept the yield set at auction. On the secondary market, you can buy existing Treasuries through a brokerage, which matters if you want a specific maturity date or need to sell before maturity. TreasuryDirect is required for I-Bonds and can be fine for buy-and-hold investors, but many people prefer brokerages for regular bill ladders because reinvestment, recordkeeping, and portfolio view are easier to manage in one place.

2. Step-by-Step System

1

Match the Treasury to the time horizon

Start with the date the money must be available. Emergency-fund cash or money for taxes, tuition, or a home purchase in the next twelve months is usually a T-Bill job. Capital that may be needed in two to five years could fit short notes if volatility is acceptable, but many investors still prefer bills or money-market funds for certainty. TIPS belong where inflation protection matters more than headline yield, often for a slice of longer-term safe assets. Long bonds should be chosen only if you understand duration risk and have a reason to want it. The maturity date is not a decorative detail; it is the whole point of the instrument.

2

Choose between bills, notes, bonds, TIPS, and I-Bonds intentionally

T-Bills are ideal when you care about yield and principal stability over short windows. Notes and bonds pay periodic coupons, which may matter if you want predictable income. TIPS are useful when real purchasing power matters and you can tolerate market-value swings if held in a brokerage account. I-Bonds are unique: they are purchased only at TreasuryDirect, limited to 10,000 dollars per person per calendar year electronically plus up to 5,000 dollars with a federal tax refund, and cannot be redeemed in the first twelve months. They also carry a three-month interest penalty if redeemed before five years. Use I-Bonds as inflation-aware savings, not as daily liquidity.

3

Decide whether auction or secondary market fits the job

For most individuals, noncompetitive auction orders are the simplest way to buy new Treasuries. At auction you do not have to guess the yield; you agree to accept the market-clearing rate. Brokerages make this easy for bills, notes, bonds, and TIPS, while TreasuryDirect can work if you are comfortable with its interface. The secondary market is useful when you want a maturity date that does not line up with the next auction cycle or when you are filling gaps in a ladder. Just pay attention to price, yield to maturity, accrued interest on notes or bonds, and spreads. A security trading above or below par changes the real return you will earn from that day forward.

4

Build a T-Bill ladder for cash management

A bill ladder spreads maturity dates so cash regularly comes due without forcing you to predict rate moves. A simple four-rung ladder might divide 40,000 dollars into four 10,000 dollar slices maturing every four weeks, eight weeks, or thirteen weeks depending on how often you want liquidity. When one bill matures, you either spend the cash or roll it into the longest rung to keep the ladder going. This approach works well for emergency funds above your checking-cushion level, known tax reserves, or business cash that needs yield but cannot tolerate stock-market risk. The ladder creates liquidity on a schedule while reducing the temptation to chase every small yield change.

5

Calculate the after-tax yield advantage over bank products

Always compare Treasuries and bank products on an after-tax basis, not just the quoted APY. If a high-yield savings account pays 4.8 percent and a 13-week T-Bill yields 5.1 percent, the Treasury already wins nominally. If your state taxes interest at 5 percent, the Treasury's advantage widens because the bank interest loses some yield to state tax while the Treasury interest does not. Use a simple after-tax formula: taxable yield times one minus your marginal tax rate for bank products, and Treasury yield times one minus only your federal rate if state tax is the differentiator. For investors in high-tax states, the state exemption can turn a close call into an easy decision.

6

Manage reinvestment, records, and maturity risk

Once you own Treasuries, the job is not over. Keep a calendar of maturity dates, redemption windows, and the purpose of each rung. If the cash is tied to a future purchase, shorten maturities as the date approaches instead of reaching for yield in longer instruments. Reinvestment risk matters too: today's attractive bill yield may not exist when the next rung matures, so do not build a long-term plan that assumes current short rates last forever. Save confirmations and 1099-INT or 1099-OID records for tax season, and if you use TreasuryDirect for I-Bonds, store login and beneficiary information where your household can actually find it.

3. Key Worksheets & Checklists

Use these sheets to tie each Treasury purchase to a purpose. The right instrument usually becomes obvious once the spending date, tax rate, and liquidity need are written down together.

1. Treasury Allocation Snapshot

Primary objective	Choose the correct Treasury security for cash management, inflation protection, or duration exposure.
Time horizon	Record when the money will likely be needed so maturity date drives the purchase.
Tax context	Note federal bracket and state tax rate to compare after-tax Treasury yields with bank products.
Purchase method	Decide whether brokerage auction orders, TreasuryDirect, or the secondary market fit the account.
Reinvestment plan	Write what happens at maturity instead of deciding in a panic on that date.

2. Execution Checklist

- Match maturity to the spending date rather than chasing the highest quoted yield on the screen.
- Use T-Bills for near-term cash, not thirty-year bonds pretending to be savings accounts.
- Check after-tax yield against savings accounts and CDs when state taxes are relevant.
- Use noncompetitive auction orders if you want simplicity and new-issue pricing.
- Remember I-Bonds require TreasuryDirect and have a one-year lockup.
- Track maturity dates and reinvestment rules in one place so the ladder stays intentional.

3. Ladder and Maturity Tracker

Window	Action	Evidence Complete
Setup week	Choose instrument, account, and maturity schedule	Worksheet shows purpose and maturity for each purchase
Purchase date	Enter auction order or buy on the secondary market	Trade confirmation saved with yield and maturity
At maturity	Spend, roll, or reallocate proceeds according to the written plan	Cash movement matches the purpose of the rung
Tax season	Collect Treasury tax forms and note state-tax exemption benefit	Records filed for federal return and state comparison

4. Common Mistakes

Using long bonds for short-term cash

A thirty-year Treasury can lose meaningful market value long before maturity if rates rise.

Comparing yields before tax instead of after tax

State-tax exemption is one of the main reasons Treasuries beat bank products for many investors.

Ignoring I-Bond liquidity rules

I-Bonds are useful savings tools, but they are not emergency cash in the first twelve months.

Building a ladder without a purpose

If you do not know what the money is for, it is hard to choose the right maturities or reinvestment plan.

5. Next Steps

Decide what each cash bucket is for, then assign the shortest maturity that still matches that purpose. Once you know the date, compare the after-tax yield of a Treasury, a bank account, and any CD alternative, and let the math rather than the headline rate make the decision.

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