Worried about inflation? This investment may be an option for your portfolio

Retirees concerned about inflation eroding the value of their money may want to consider hedging against the possibility.

Treasury inflation-protected securities, or TIPS, could be an appropriate option.

Like typical Treasury bonds, TIPS are issued and backed by the U.S. government. However, they operate a bit differently. And depending on how you use them, they can help protect your purchasing power.

As the U.S. claws its way back to pre-pandemic economic activity and the Biden administration's stimulus efforts juice the recovery, inflation has been on the minds of some investors. The consumer price index rose 0.6% in March from February, and 2.6% from a year earlier — much higher than the year-over-year 1.7% recorded in February.

In addition, the Federal Reserve has indicated its willingness to let inflation run hotter than the standard 2%, although some experts think the March surge is temporary.

"It's hard to say if inflation is a primary concern right now, but there's a strong case to be made that inflation could continue to tick higher over the next several years as the economy heats up," said certified financial planner Douglas Boneparth, president of Bone Fide Wealth in New York. "So I wouldn't discount anyone's concerns."

The economy is expected to grow more than 6.5% this year, according to a recent CNBC survey of economic experts. Respondents also anticipate that the unemployment rate will drop to 4.9% and inflation will come in at 2.5%.

Like Treasury bonds, TIPS are issued by the U.S. government. Investors receive regular interest payments based on the so-called par value (face value) until the security matures, at which point you get back your principal.

However, TIPS come with inflation protection via a yearly adjusted par value that derives from the consumer price index, which measures inflation. The changing yearly value is intended to maintain the TIPS' purchasing power over time. In contrast, typical Treasury bonds may lose value over time due to inflation, unless the interest they earn is above that rate.

Right now, the bellwether 10-year Treasury bond is yielding about 1.6% — which would mean losing purchasing power if inflation hits even 2%.

"I don't think TIPS are good long-term … for maintaining purchasing power."

-Clark Kendall, CEO of Kendall Capital

"I am not a fan of locking in at 1.5% or 1.6% when that's below the Federal Reserve chairman's target inflation rate of 2%," said CFP Clark Kendall, president and CEO of Kendall Capital in Rockville, Maryland.

Kendall said he uses TIPS for short-term needs — up to about three years.

"You have safety and protection of your principal," Kendall said. "But I don't think TIPS are good long-term … for maintaining purchasing power."

For, say, 10 years or 15 years out, other investments — including dividend-yielding stocks — are generally better tools for beating inflation, Kendall said.

TIPS also aren't necessarily great investments if you're in search of income, because their yields are below non-inflation protected bonds, Boneparth said.

"It's about protecting purchasing power," he said. "If there's no inflation, you won't realize any of the benefits of owning TIPS."