Social Security Solutions
SOFTWARE | EDUCATION | RESEARCH | INNOVATION
www.ssanalyzer.com

William Meyer
Founder and CEO
Social Security Solutions, Inc.
www.SSAnalyzer.com

Here's a Tip: How Social Security Acts like a Treasury-Inflation Protected Security

A comparison of Social Security with an investment vehicle that has a similar objective reveals surprising findings about risk-adjusted returns

By **William Meyer**

Think it's a smart strategy to begin taking Social Security benefits early, only to then reinvest the proceeds in an attempt to earn a higher return? Think again. A simple explanation involving a similar-type security explains why.

It's possible, of course, to get earn a 6% or 7% return by investing in stocks, but there's a little thing called risk, something many Social Security recipients are looking to minimize at that particular time in their lives.

For an "apples-to-apples" comparison of investments with similar levels of risk, let's match Social Security with a treasury-inflation protected security (TIPS).

First introduced back in 1997 by the U.S. government, TIPS are meant to do what you'd expect—provide protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, you are paid the adjusted principal or original principal, whichever is greater.

TIPS pay interest twice a year, at a

fixed rate. The rate is applied to the adjusted principal; so, like the principal, interest payments rise with inflation and fall with deflation.[1]

So how are TIPS like Social Security?

Like TIPS, Social Security benefits are linked to inflation as measured by the consumer price index (CPI). While TIPS are backed by the full faith and credit of the United States government, Congress can make changes to Social Security that would affect the latter's real rate of return. However, most financial experts and intermediaries treat both as "similar-risk" type of investments. Regardless, the promises of each are linked to inflation.

But here's an important way in which they differ—return, or more specifically, their internal rate of return.

An investment internal rate of return is the rate of return that would make the present value of future cash flows plus the final market value of an investment or business opportunity equal the current market price of the investment or opportunity.

In plain English, an internal rate of return is used to make the "apples-to-apples" comparison we mentioned above in order to determine if an investment is worthwhile relative to similar opportunities. If the internal rate of return is greater than the return of a similar investment opportunity, it is generally considered worthwhile. The same can be said if the return generates more than the initial investment.[2]

As you can probably guess, Social Security (at least currently) comes in much higher.

If a person has a long life expectancy and delays taking Social Security just one year past their full retirement age from 66 to 67, it can result in a 6% real rate of return, *versus a 0.53 real rate of return for a TIPS.* Remember, these a similar instruments based on their level of risk. Here's how it happens:

If they take Social Security benefits at age 67 and live to an advanced age of, say 91, it would result in a 6.06% return just off of that one year delay. Now compare it to a 30-year TIPS with a similar duration, which result in only the 0.53 real return previously mentioned—a significant difference. Additionally, if he or she has a younger spouse with a lower primary insurance amount, benefits based on the higher-PIA spouse's earnings record generally will continue until the second spouse dies.

"If a person has a long life expectancy and delays taking Social Security just one year past their full retirement age from 66 to 67, it can result in a 6% real rate of return, *versus a 0.53 real rate of return for a TIPS."*

Which is why squandering the inherent guarantees imbedded in Social Security by attempting to reinvest for a higher return makes no sense, and is ultimately dangerous.

About William Meyer

Bill Meyer is founder and managing principal of Social Security Solutions, a leading Social Security software firm with patented technology that is dedicated to educating and assisting financial advisors and their clients in optimizing their Social Security claiming strategies. More information is available at www.SSAnalyzer.com.

About Social Security Solutions

Headquartered in Leawood, KS, Social Security Solutions, Inc. (www.SocialSecuritySolutions.com) delivers advice and education about Social Security retirement benefit claiming strategies to consumers and practitioners. Social Security Solutions, Inc. leverages its expertise, research and technology to help clients determine the best strategy for collecting benefits in line with their overall retirement goals. To sign up for a free trial, click here.

1 *"Treasury Inflation-Protected Securities (TIPS)." Treasurydirect.gov. Sept. 27, 2013.*

2 *"Internal Rate of Return." Investorwords.com. 2014*