



## Ruminations on When to Take Social Security

Have you ever wondered, “Should I start taking Social Security *before* full retirement age or *after*?” At its root, this is simply a time value of money problem. You give up a payment now in exchange for higher payments in the future. With an appropriate discount rate, you would get an age at which you would “break even.” If you were to live past that age, you would be better off. If you were to die before that age, delaying would have made you worse off.

Complicating the problem, of course, is the government making the cash flows different for different people at different ages and with different birthdates. In addition, choosing an appropriate discount rate is crucial. Many people use the rate of return of their portfolio, but I do not believe that is correct. Stock returns (as we have seen lately) are uncertain, and while there is *some* political risk that Social Security will be tampered with, there really isn't any default risk. So, a treasury seems appropriate. Also note that, since Social Security is adjusted for inflation, the proper discount rate must be a real (as opposed to nominal) rate of return. Therefore, I think the most appropriate factor should be the current yield on TIPS (Treasury Inflation Protected Securities).

See our website for a copy of the spreadsheet that performs the calculations.

### Notes:

*The analysis in this report has been prepared by David E. Hultstrom, MBA, CFP<sup>®</sup>, CFA<sup>®</sup>. Mr. Hultstrom is the president of Financial Architects, LLC, a financial planning and wealth management firm. Questions or comments are welcome. He may be reached at (770) 517-8160 or David@FinancialArchitectsLLC.com.*

*Reasonable care has been taken to assure the accuracy of the data contained herein and comments are objectively stated and are based on facts gathered in good faith. We disclaim responsibility, financial or otherwise, for the accuracy or completeness of this report. Opinions expressed in these reports may change without prior notice and we are under no obligation to update the information to reflect changes after the publication date. Nothing contained in this material is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional. Past performance is no guarantee of future results. This is not an offer, solicitation, or recommendation to purchase any security or the services of any organization. Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment. The foregoing represents the thoughts and opinions of Financial Architects, LLC, a registered investment advisor. Your mileage may vary.*

*This report was originally written in February, 2003 and was last reviewed/updated in April, 2011.*

© Financial Architects, LLC