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When borrowing can be a smart strategy

Borrowing can offer flexibility and align with long-term financial goals.

When it comes to personal finance, conventional wisdom says the best way to live is debt-free. There are many important reasons why this is tried and true, but for high-net-worth individuals, lending can be an optimal way to access cash in the near term without sacrificing long-term gains on your assets.

The most successful companies in the world all have a debt side of their balance sheet that they can use to their advantage – something that individuals can do as well. It may seem counterintuitive to incur debt when you have the means to access cash in other ways, but doing so can have advantages

depending on your unique circumstances. Some benefits include:

- **Leveraging investments:** By taking on debt, your assets remain invested and able to potentially grow.
- **Preserving liquidity:** Maintaining liquidity by using debt for large purchases can help to ensure that your cash reserves remain intact for other opportunities or emergencies.
- **Tax efficiency:** By leveraging your investments, you don't incur capital gains taxes, and in some cases, interest on debt may be tax-deductible, offering additional financial benefits.

For high-net-worth individuals in particular, debt can offer greater flexibility and opportunities for investors. Used strategically, debt can enhance your financial position, and when managed wisely, it can be a powerful tool rather than a burden.

There are a number of scenarios in which borrowing options may be a good way to help you achieve your goals.

Ask yourself, if you found yourself in an immediate need for significant cash – such as, if something happened to your home or family – how would you access that cash? This may be a situation in which having a line of credit available in advance and incurring debt in the short term makes sense within the comprehensive picture of your long-term financial goals. When the need arises, you can give yourself the time to the decision that best fits your situation and pay the emergent expense immediately, while allowing your asset base to continue to grow and address that immediate need without disturbing your long-term plan.

But these aren't strategies to consider only in emergency situations. The kind of life changes that call for celebration – such as investing in real estate, expanding your business, supporting adult children in their



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When borrowing can be a smart strategy (cont.)

next steps such as marriages or home purchases or making luxury purchases such as a car or boat – may also present opportunities to utilize borrowing strategies.

While a variety of borrowing options exist that high-net-worth individuals may find advantageous in different scenarios, here are a few examples:

SECURITIES BASED LENDING

Securities based lending or a securities based line of credit (SBL) uses as collateral your existing eligible securities, giving you increased borrowing power without the need to sell securities and disrupt long-term investment plans. Securities based lending can also be helpful if you're a business owner and have a new cash flow need to help grow your business, allowing you to borrow against your existing assets.

TAILORED LENDING

Tailored lending allows you to use collateral such as control/restricted securities, hedge funds, exchange funds, American

depository receipts (ADRs), non-investment grade bonds and over advances on typical SBL collateral to borrow.

MORTGAGE LENDING

When you're thinking about purchasing a home – like a new home or dream vacation home for yourself, or a home for your grown children – a mortgage loan may be a smart strategy, offering many of the benefits mentioned above. And mortgage lending isn't one size fits all – there are a number of loan options and strategies. For instance, a pledged asset mortgage allows you to pledge a portion of your investment portfolio as collateral in lieu of a traditional cash down payment, allowing you to keep your assets invested as is.

When exploring any borrowing options, one thing to consider is your plan for repayment. A thoughtful strategy can help you take advantage of borrowing in the way that best meets your needs and goals without needing to sell other assets. When leveraged appropriately, these options should allow your assets to continue to grow in the long term in a way that supports you and your family's overall financial goals. ■

Write your story: Embrace your retirement identity

Rediscover yourself and the impact you can make in this new phase.

Retirement offers opportunities to show the world who you are in new ways. Here are just a few examples for inspiration:

THE GRAND TOURER:

There is truth in beauty, and you intend to find it one Arctic glacier or French museum at a time.

THE LIFELONG LEARNER:

University seats for non-degree seekers allow you to explore science, literature and history without spending a nickel.

THE TURNAROUND ARTIST:

Your guidance, based on your career experience, helps a local charity survive its growing pains and better serve its constituents.

THE HEALTH GURU:

Your morning walks, pool laps and yoga flexibility inspire others in the wellness group you now lead.

THE BUSINESS LEADER:

You retired, then started the small business you always dreamed of running, right in your town's quaint downtown.

Let your passions guide you in writing this next chapter.

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The future of Social Security: What you need to know today

How Social Security's anticipated shortfall may impact you down the road.

Social Security's outlook continues to raise concerns. But while you may hear the program is in danger of becoming insolvent, that isn't the case. The problem isn't insolvency – it's a challenge of changing demographics. Understanding those changes, and what solutions are on the table, is key for anyone planning for retirement.

Social Security benefits are funded by payroll taxes collected from today's workers. It's a pay-as-you-go system; if workers are paying payroll taxes, Social Security benefits will be paid.

For decades, the Social Security system collected more in payroll taxes and other income than the benefits it paid out, creating a reserve. In 2021, when the program's costs began exceeding its revenue, it started drawing from this reserve.

When those reserves are depleted – expected in about 10 years – benefits will be reduced by an estimated 17%. If Congress takes no advance action, the fund is expected to be able to pay 83% of current benefits in 2035, declining to 73% in 2098.

Today's baby boomers have a greater life expectancy than those in earlier generations. At the same time, younger generations are getting smaller, meaning fewer workers are paying into Social Security. And a smaller percentage of Americans' income is subject to the payroll taxes funding Social Security because the earnings of the highest-paid workers have grown faster than those of the average worker.

Sixty-seven million Americans receive Social Security payments each month – it's the main source of income for people 65 and older – making its future important. To patch the shortfall, Congress has some options.

OPTION 1: INCREASE TAX REVENUE

The most obvious way to increase Social Security funding is raising payroll taxes. Employers and employees currently each pay 6.2% for Social Security. Increasing to 15.75% shared between employers and employees could ensure solvency for 75 years but that may be unaffordable for lower-income workers.

Another option is adding new tax sources. The American Academy of Actuaries has suggested taxing investment income or increasing estate and gift taxes – an idea likely to face resistance.

Additionally, the Social Security tax rate applies to annual wages up to \$176,100. Removing that cap and taxing all earned income could

eliminate 78% of the shortfall. Traditionally, earners above \$176,100 are subject to a wage cap to prevent higher taxation that may not justify the benefits. Social Security's political support comes from the idea that you can receive back a benefit you have paid into but removing the cap could undermine that support.

OPTION 2: REDUCE BENEFITS FOR HIGH EARNERS

Another idea is to reduce future benefits for high earners not yet collecting Social Security, based on the assumption they'll rely on it less. But this alone wouldn't curb Social Security expenditures enough to address the problem.

OPTION 3: RAISE THE RETIREMENT AGE

Today the full retirement age (FRA) is 66 and two months for those born in 1955, gradually increasing to 67 for anyone born in 1960 or later. Some lawmakers propose raising the FRA to 70 to reflect today's longer life expectancy. This alone could eliminate nearly a third of the Social Security trust fund's 75-year deficit. However, working to an older age could be especially challenging for low-income Americans and those in physically demanding jobs.

NO EASY ANSWERS

Odds are a solution would comprise some combination of these actions – higher taxes for some, lower benefits for some or more years on the job for some. And any proposal is likely to face opposition. The sooner policymakers act, the more options they will have, and the more time pre-retirement Americans will have to prepare for changes. ■



Sources: cbpp.org, asppa.org

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