



BUY, BORROW, DIE

The Strategy Behind the Slogan

In the quiet moments of reflection that come with financial success, a new question often emerges: *How do I enjoy the life I've built without compromising the future I hope to leave behind?*

For many of our clients, the traditional answers – sell, spend and scale back – don't align with the sophistication of their portfolios or the intentions they have for preserving wealth for future generations. Instead, they're looking for something more refined: a way to access liquidity during retirement without disrupting long-term growth or triggering avoidable tax exposure.

One such strategy, colloquially referred to as "Buy, Borrow and Die," offers a surprisingly elegant solution. While the name may lack subtlety, the approach behind it is anything but crude; it's a sophisticated method of using leverage, tax rules and disciplined estate planning to help protect and extend wealth across generations.

I. The Problem with Traditional Drawdown Strategies

The default retirement playbook is simple: sell assets to fund your lifestyle. Yet for many high-net-worth individuals, this approach can get expensive quickly.

Selling appreciated investments triggers capital gains taxes and reduces the power of compounding; liquidating assets inevitably slows growth, particularly when portfolios are structured for the long term. Over time, the combination of taxation and diminished performance can quietly erode the wealth you've spent a lifetime building. While that seems inevitable, there is indeed another option.

II. Step One: Buy – Build a High-Growth Portfolio

The first step in the strategy is to build and hold high-quality, appreciating assets. This means pulling away from timing markets or chasing trends to own durable investments that should compound steadily over time. By focusing on a thoughtful portfolio, typically concentrated in equities and other growth-oriented vehicles, you build the foundation for this plan to create material liquidity and legacy.

III. Step Two: Borrow – Access Liquidity Without Selling

Rather than sell assets to fund retirement, this strategy involves borrowing against the portfolio you've built, typically through a *securities-backed line of credit*. The assumption, and expectation, is that the portfolios generate average returns that are greater than the cost of borrowing. Of course, this is not guaranteed, and the value of the securities can fluctuate.

Imagine this: A \$4 million investment portfolio, with an average growth rate of 10%, is used to secure a \$1 million loan at a 5% interest rate. This is where the elegance of the approach shines. Because loans are not considered "income" by the IRS, loan proceeds are tax free. This enables you to fund your lifestyle while your portfolio remains invested.

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Of course, securities-backed lending carries key risks: if your portfolio drops in value, you may face a margin call or forced asset sales. Interest rates can rise, and you might trigger taxes if assets are sold. It's flexible, but not without potential downsides. But by employing a disciplined approach that takes advantage of the historically positive value spread of equity over debt, these risks can be mitigated while allowing the positive arbitrage to continue growing your net worth, even while drawing income in retirement.

IV. Step Three: Die – Transfer Wealth with Step-Up in Basis

The final step in this strategy is perhaps the most powerful from a generational perspective.

When you pass away, the loan must be repaid. Historically, however, the average growth rate of investment assets are greater than the cost of debt, as noted above. Further, your heirs will typically receive what's known as a "step-up in cost basis" depending upon the asset. This means they inherit the assets at their then-current market value — meaning no one pays tax on the unrealized capital gains accumulated up to that point.

In simple terms: If you borrow against your portfolio instead of selling the assets themselves for retirement income, and pass the portfolio on to your heirs, they receive the full market value of the portfolio tax free. Further, the loan interest may be deductible against qualified dividend income. The "step-up in basis" rule is subject to ongoing debates and could be modified in the future. You should work with a qualified tax professional for your personal situation.

V. Enhancing the Strategy: The Role of Life Insurance

For some clients, the final layer of refinement comes from incorporating life insurance.

A permanent life insurance policy can be used to pay off the outstanding portfolio loan upon death, preserving the full value of the non-taxable investment portfolio for heirs. This ensures that your family isn't forced to sell assets to settle the debt, and the wealth transfer remains fully intact. For this strategy to be effective, it is important to clearly communicate your wishes to your beneficiaries about repaying the loan with the life insurance proceeds.

VI. Who This Works For, and What to Consider

This strategy isn't for everyone. It's best suited for clients who have:

- A large, taxable investment portfolio,
- A long-term investment horizon,
- A strong credit profile, and,
- A desire for a thoughtful estate plan.

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Other important considerations include:

- Net worth: this strategy is best suited for individuals with substantial assets who can benefit from long-term planning and withstand short-term fluctuations.
- Interest rate risk: as borrowing costs fluctuate, so does the strategy's efficiency.
- Market volatility: maintaining sufficient margin in the portfolio is key. Investing involves risks including possible loss of principle.
- Strategic loan management: borrowing must be measured and disciplined.
- Estate planning alignment: every situation is unique, and you can't analyze any strategy in isolation. It is important to work with your own estate planning and tax attorney for specific advice on your personal situation.

VII. Beyond Wealth: Designing What Endures

At Azura, we believe that true financial sophistication lies in simplicity. Strategies like "Buy, Borrow and Die" reflect the kind of planning that doesn't chase headlines, but quietly builds a future where you could have the opportunity to live well and give generously.

As always, our role is to help you weigh the possibilities, design with intention and move forward with clarity. If this strategy resonates with your vision, we're here to explore whether it might be right for you.

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