

Is a Family Office

Within Reach?

Similar to successful companies, as families grow and prosper, they may find themselves needing more resources to manage their assets; they may need a family office. New options are making this support available for more families today.

In 1882, John D. Rockefeller established the first traditional family office to manage his family's extensive assets and philanthropic activities. But even if you don't have the wealth of the Rockefellers, you have likely faced the challenges of managing multi-generational wealth as your family has grown and prospered.

The question of estate planning is a good example. As children grow up, marry and have children of their own who then do the same, decisions about how family assets will be passed from generation to generation can become complex and time consuming. Likewise, issues surrounding tax preparation, insurance coordination and trust administration may prove overwhelming.

As the task of managing these diversified tasks becomes more complicated, creating a family office can help centralize and control information, and may prove useful in simplifying investments, philanthropic efforts and other family-centered responsibilities. While a wide range of family office structures is available, most fulfill five key roles: chief advisor to the family, investment manager, financial administrator, trustee and back office support.

Is a Family Office Right for You?

To decide whether to set up a family office, it's best to first decide on an overarching goal. For example, some offices solely focus on investments and growing wealth, often after the sale of a family business or sudden infusion of liquidity. Other family office directives purposefully exclude investment management, leaving the question of asset management to a separate group of professionals.

“The first question to ask is, what is the purpose of the family office?” says Charlotte Beyer, founder and CEO of the Institute of Private Investors (IPI), a networking and education resource to families with substantial assets and their advisors. “Is it a profit center or a cost center? Is it intended to preserve wealth or to grow it? Is it to educate the next generation? Once you decide on the purpose of the family office, that drives the decisions and makes for a sounder strategy.”

Jon Carroll, co-founder and managing director of New York-based Family Office Metrics, a strategic business consultancy to family fiduciaries, points to ways in which a family office can increase a feeling of security for those families that choose to employ one.

“A family office is the right choice when the family wants absolute control over its own affairs,” Carroll says. “Along with absolute control comes privacy and confidentiality.”

Family offices can also become a central source of information about the family’s financial matters and allow for continuity from generation to generation while acting in accordance with a set of family values.

Because they can cost more than \$1 million to run each year, most experts believe that to justify the economies of scale, family offices are best suited for families with a net worth of at least \$100 million to \$150 million. Increasingly, however, more families

are finding ways to enjoy the benefits of a family office structure — even if the cost of a stand-alone family office proves prohibitive.

Multi-Family Offices Offer Power in Numbers

Families for whom a stand-alone family office is unnecessary may benefit from joining a multi-family office. Multi-family offices evolved out of more traditional, one-family offices and are designed to serve more than a single family at a time. These families often share common needs and values while seeking the same kinds of services single-family offices can provide.

According to the Family Office Exchange, a professional organization that tracks information on family offices, there are approximately 50 multi-family offices in the United States. And while structures for these offices vary, they often follow one of the following models for their organization and operation:

- Long-established family offices that, to remain intact, offer their services to additional investors to attract the most qualified professionals and increase the assets the office manages.
- Long-established family offices that have chartered private trust companies to handle their family trust needs and those of other families.
- Family groups that have developed global investment expertise to serve their needs and those of other investors.

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- Family groups that turned ownership of a family office over to a management team but remained satisfied clients of the office.

While multi-family offices may offer a slightly different level of personalized service than a stand-alone office can provide, a key client contact is typically assigned to each family. This “quarterback” is responsible for ensuring the multi-family office meets the family’s needs.

Leveraging the Power of Cyberspace

For other families, a technology-based virtual family office solution may be the answer. A virtual family office allows many asset management and family office professionals to collaborate through the Internet or other emerging technologies, and can help grow and protect family wealth in cost efficient ways by reducing or eliminating the need for a traditional bricks-and-mortar office.

At the core of a virtual family office is the ability to leverage the power of technology in such areas as data aggregation and management, online collaboration and Web portals that can collect all of a family’s services and information in one, easily accessible location. While they may lack the more personable elements of a more traditional relationship-based family office, virtual family offices can provide many of the same types of service while providing an expanded level of access to information and a more “hands-on” feel due to their Web-based features. For many first generation millionaires and younger families who are more comfortable with technology and who find the cost of traditional or multi-family offices unaffordable, a virtual family office can be attractive.

Selecting the Best Option

“With so many options available, finding someone who can engage you in an effective conversation about your needs is important,” says Steve Bell, senior vice president and head of the Wealth Management Group at Northern Trust, which works with more than 330 families around the globe. “We sit down with clients and ask them what they need, and help them answer questions such as, ‘Do I need a family office? What functions would it have and how would I structure it?’” These answers can help you determine what type of solution will best suit your family’s needs.

For some clients, the Wealth Management Group’s Relationship Management staff, technology, investment management, financial and tax planning, and trustee services can meet their needs without a formal family office structure. “In many respects, we fill the needs that families look to family offices to provide,” says Bell. “We take on many of the so-called back office services for our clients — coordinating the reporting on their various trust and investment accounts, and handling financial and tax planning, investment compliance, budgeting, asset reporting and accounting. This allows them to focus on things that are more important to them.”

Gain Depth of Support

Carroll likens the decision to outsource family support functions — whether to a traditional, multi- or virtual-family office — to having a deep bench on a sporting team. “There is a lot of expertise at [these families’] disposal” when they use a family office, Carroll says. “A multi-generational and multi-disciplinary approach to the relationship is the one that provides the family with the highest value.” ■

Passport for Wealth Management Offers Virtual Family Office Benefits to Clients

Passport for Wealth Management was developed to meet the evolving needs of ultra-high-net-worth individuals and their families. Backed by the experience, innovation and advisory capabilities of Northern Trust, this integrated technology platform provides comprehensive tracking, information-gathering and management tools for even the most sophisticated financial and family structures — providing a comprehensive description of the family’s financial situation.

Through Passport for Wealth Management, affluent individuals and families — and the family offices that serve them — can realize the benefits of convenient access to financial management tools, efficient decision-making and cost-effective administration.

“Passport for Wealth Management offers comprehensive data aggregation, advanced reporting and customizable wealth management and accounting tools,” explains Steve Bell, senior vice president and head of the Wealth Management Group at Northern Trust. “This powerful solution enables family offices to run efficiently, make strategic decisions and ultimately focus more time and attention on the families they serve. Northern Trust understands the complexities faced by affluent individuals and families in growing and preserving their wealth. By partnering with us, family offices benefit from our institutional strength, commitment to innovation and wealth of experience advising ultra-high-net worth clients.”