



THE
NORTHERN TRUST
INSTITUTE

DO YOU NEED A FAMILY OFFICE?



Whether you have built your wealth over time, or have come into it more recently, you may have reached a point where you find yourself wondering, “Do I need a family office?”

Managing significant generational wealth is about more than just preserving assets — it also involves orchestrating a strategy that aligns your family’s unique needs, values, and vision for the future. As wealth increases, the effort required to manage growing assets, in tandem with the collective and individual needs of the family, is an increasingly complex undertaking — and you may find you need additional support to meet your needs.

For many ultra-high-net-worth families, a family office model has become an increasingly popular solution for providing the professional support needed for your family’s financial and lifestyle management. In fact, the number of family offices globally has increased by 31% over the last five years and is expected to rise another 33% by 2030.¹ Concurrently, the term “family office” has grown to encompass a wide range of approaches and structures, with each family office model as unique as the family it serves.

WHAT IS A FAMILY OFFICE?

A family office is a collection of coordinated advisors assembled to provide tailored wealth management solutions to a family across multiple generations. Historically, family offices often had a physical location with dedicated professional staff. Today, however, technology and virtual, outsourced solutions provide wealth owners with a range of structural options to suit the particular needs of their family.

The modern family office landscape exists on a continuum, ranging from fully staffed stand-alone offices to virtual, outsourced solutions and myriad structures in between.

When evaluating how a family office structure can best serve your needs, a primary consideration is a matter of “build or buy.” That is, should you *build* an internal infrastructure or *buy* solutions from an external provider? In practice, most family offices utilize a combination of both in-house and outsourced services to best serve the needs of their family.

The wide range of available solutions — coupled with the potentially significant operational cost — can make navigating the family office landscape a complex undertaking. Furthermore, as your family and wealth evolve, so, too, do your needs and priorities. Thus, the decision to establish a family office structure is not a one-time process, but rather a continuous evaluation of how best to serve your family. Yet, with careful consideration and ongoing input from experienced professionals, you can confidently determine which personalized solutions are best to help address the full spectrum of your family’s needs — now and in the future.

The following three-question framework is a constructive starting point to help you determine how your family could benefit from professional family office services, and which structure may be best for you to consider.

1. WHAT IS THE COMPOSITION OF YOUR WEALTH AND FAMILY?

Generally, families with wealth in excess of \$100 million can benefit from professional family office services. However, while an important consideration, the size of a family's wealth is just one of many factors to weigh — assessing the composition of your balance sheet and the dynamics of your family is an important first step in helping you determine which structure may serve you best.

THE COMPOSITION OF YOUR WEALTH

The complexity of your assets can help determine the extent of services you require and who would be best equipped to deliver them. For example, a family with a portfolio consisting primarily of marketable securities may be served sufficiently by an outsourced wealth manager. On the other end of the spectrum, a family holding a variety of asset classes with an array of ownership structures — like complex business entities, private equity, real estate or agricultural assets — may benefit from more dedicated expertise, like a family office chief investment officer.

THE DYNAMICS OF YOUR FAMILY

Similarly, another key consideration in determining which structure may serve your family best is the size and complexity of your family. For example, first-generation wealth creators with few heirs may be aptly served by an outside advisor who can coordinate advisory and concierge services. Conversely, families with complex family structures who are seeking to serve the day-to-day needs of several family units may prefer the coordination of a dedicated in-house team.

THE TAKEAWAY

While the size of your balance sheet is one factor in assessing family office structures, even more important is considering its composition and the dynamics of your family. While most ultra-high-net-worth families will benefit from the professional services of a family office, the degree of complexity in your wealth and family structure will help determine the kinds of services you require, and in turn, who should execute them.

2. WHAT SERVICES DO YOU REQUIRE?

Family offices are not one-size-fits-all, and each provides tailored service offerings that align with the unique needs of the family. Broadly, a family office provides comprehensive wealth management, family education and governance, privacy and support for your family's priorities and legacy, designed to extend to both the current and future generations of the family.

A key step in determining the ideal family office structure is to identify the specific services your family requires, who in the family will use them, and how frequently the services will be needed.

The following is an illustration of common family office services across eight broad categories; however, there is an array of additional services not listed that your family may require.

- **Strategic Wealth Planning:** Including wealth transfer planning, trustee and trust administration duties, unique asset oversight and financial planning.
- **Legal & Tax:** Including tax planning, compliance, and estate and marital planning.
- **Accounting & Finance:** Including transaction management and general ledger oversight to support the family's overall cash flow and spending.
- **Investments:** Including development and execution of investment strategy, manager evaluation and due diligence.
- **Banking & Insurance:** Including account support, lending, bill pay and insurance management.
- **Philanthropy:** Including philanthropic planning and, where applicable, family foundation management.
- **Family & Lifestyle:** Including family governance, next generation education, succession planning, and travel and concierge services.
- **Family Office Management:** For established family offices, this can include technology and cybersecurity, advisor coordination, risk management, recruiting and human resources.

THE TAKEAWAY

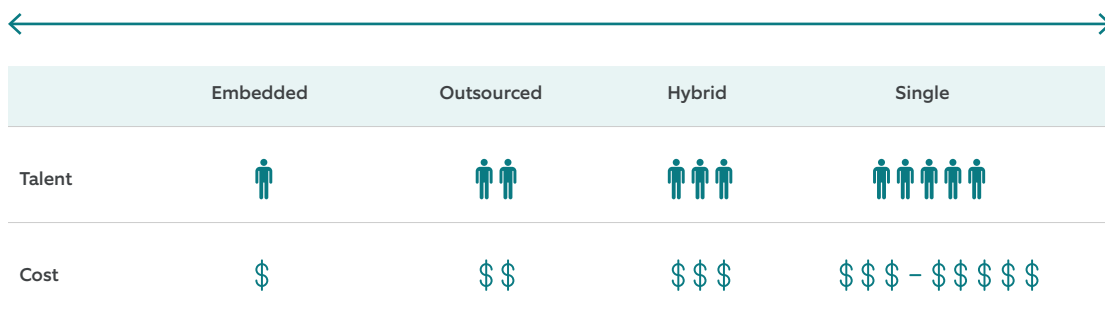
Identifying the full suite of services your family will require, who will require them, and the frequency they will be utilized is a key step in informing how to best structure your family office. While some services may be executed by existing advisors or staff, some family leaders may find the increasing demands of coordinating advisors is taking up time and energy that could be spent on matters of greater importance or interest. Additionally, if there are shortfalls within your current team, an external partner can assist in filling those gaps and professionalizing the delivery of services to create greater efficiency and peace of mind.

3. WHAT IS THE RIGHT STRUCTURE TO DELIVER THESE SERVICES?

After assessing the composition of your family and wealth, and identifying the range of services you will require, the next consideration is a matter of “build or buy” — will you *build* the infrastructure required to deliver the services, or will you *buy* it from an outsourced solution?

As noted, there is a wide array of available structures and options — from outsourced, virtual solutions to full staffed brick-and-mortar offices. That said, family office structures tend to fall into one of four distinct types. While variations exist based on services offered, the number of family members served and asset complexity, the following provides a broad overview of typical staffing needs and costs along the spectrum.

A SPECTRUM OF STRUCTURES



EMBEDDED FAMILY OFFICE

The genesis of many family offices is their family business. Embedded family offices draw on the expertise of the operating business to serve the family as well as the company.

- **Benefit:** Leverages existing resources within the family business to offer specialized services to the family members.
- **Trade-off:** The demands of the operating business and family office may overtax resources. Existing family business employees may not have the professional skill set necessary to handle critical family matters. Additionally, these individuals may not be adequately trained to handle sensitive or confidential information.

Example: The second-generation operators of a successful commercial real estate development company tap the longtime CFO and a trusted administrative assistant to help coordinate the growing needs of the family enterprise, including tax reporting, planning travel services, property management and insurance coordination.

OUTSOURCED FAMILY OFFICE

A growing trend in the family office landscape, an outsourced family office is a collection of external advisors who work together to manage the finances and lifestyle needs of an ultra-high-net-worth family.

- **Benefit:** Outsourced family offices provide the expertise of experienced professionals with skill sets aligned to the needs of the family.
- **Trade-off:** Since outsourced family offices are often working with several families, there is often less control and dedicated oversight.

Example: Following the IPO of his company, a tech entrepreneur found himself spending considerable time coordinating advisors, and instead wanted to focus on philanthropic pursuits in this new chapter of his life. After interviewing a few recommended providers, he chose a wealth management firm with streamlined solutions to help manage his family's wealth and legacy, leaving more time for him to focus on his passions.

HYBRID FAMILY OFFICE

This structure outsources certain aspects of the family office while maintaining internal roles for select functions, such as an administrative coordinator and/or a full- or part-time chief executive officer or chief investment officer.

- **Benefit:** A hybrid structure gives you access to best-in-class providers, supported by dedicated individuals to coordinate all of the family's advisors and day-to-day activities.
- **Trade-off:** The role of chief executive officer or chief investment officer is critical to the success of a hybrid model, and sourcing talent with the right expertise and experience can be challenging. Additionally, aligning on compensation structures for this role can be complex.

Example: The principal of a private equity fund feels his current team of advisors is lacking the specialty lending and estate planning services he requires to best serve the needs of his evolving family and balance sheet — but he does not have the bandwidth to source and manage a new team of advisors. He hires an existing trusted advisor to operate as their family office's chief executive officer. The CEO serves as the main point of contact for the founder and his family, and helps coordinate bespoke, best-in-class services from an outsourced team of advisors to help meet the family's goals and priorities.

SINGLE-FAMILY OFFICE

A traditional single-family office, as defined by SEC regulations, is custom-built to support the needs of one family, typically through a physical location and dedicated staff members.

- **Benefit:** Provides fully customized solutions supported by a dedicated staff.
- **Trade-off:** The cost of running a single-family office is significant, with estimates ranging from \$1–\$2 million annually.

Example: A team of 50 full-time staff members serves in the family office of a privately owned manufacturing company, supporting aspects of the business, providing personalized services to family members and facilitating the joint philanthropic activities of four generations of the family, and growing.

THE TAKEAWAY

The best structure to fulfill your vision depends on your family's unique needs and preferences — as those factors evolve, your family office may too. In practice, most family offices have a combination of in-house and outsourced activities. Regardless of the structure your family ultimately decides to pursue, you will want to work with experienced, qualified advisors to help you understand the associated tax efficacy, regulatory considerations and wealth planning considerations to maintain your family office.

ALIGNING ON A VISION FOR YOUR FAMILY OFFICE

Once you decide a family office model may be the right solution for you, it can be tempting to jump into structuring options. However, defining who you are as a family and the values that bind you is a critical step before you begin designing your family office.

The following questions can help your family align on the purpose of your wealth, and in turn, identify a shared vision for future success within the family office.

- **Reflect** – How do you want your wealth to benefit your family and your community? How might different generations define wealth?
- **Share** – What stories could you share that represent your values and your intentions for your wealth?
- **Align** – What does success look like for your family? What might you want to achieve together, and what might you do separately?
- **Engage** – What structures can we put in place to support our family's vision?

Reflecting on the purpose of your wealth is an important but oft-missed step in designing your family office. Taking time to align across generations on your shared values enables your family to build upon your grounding principles to create a structure that goes beyond the balance sheet and supports a lasting family culture.

HOW CAN NORTHERN TRUST HELP?

Northern Trust has been working with ultra-high-net-worth families for generations and family offices for decades, providing family office services for many of America's wealthiest families. We have helped them design and implement solutions that range from an informal collection of advisors to sophisticated structures that employ a variety of professionals.

A RANGE OF SOLUTIONS: HOW NORTHERN TRUST CAN HELP



OUTSOURCED FAMILY OFFICE	HYBRID FAMILY OFFICE	EMBEDDED FAMILY OFFICE	SINGLE-FAMILY OFFICE
<p>We can serve as your outsourced family office by providing a dedicated team to seamlessly integrate in-house expertise and strategic partnerships with external advisors. This collaborative approach ensures we address every facet of your multigenerational needs.</p>	<p>We can provide collaborative resources while leveraging our deep-rooted commitment to the family office community. Our dedicated relationship team will guide you through establishing and managing your family office, and we'll connect you with the resources and community connections that can maximize your success.</p>		<p>We use our experience as a partner to more than 500 family offices around the globe to deliver custom wealth advisory services for your family office. Consider us an extension of your office and leverage our experience to provide custom wealth advisory services for your embedded family office. We offer access to investments, banking, trust and estate services, brokerage, thought leadership and a community of peers.</p>

While each family is unique, we leverage our experience to help you determine whether you need a family office, and if so, which services and structure is optimal to help you achieve your highest priority family goals. Our consultative approach is designed to help you identify the right option for you and your family.

As the dynamics of your family and wealth evolve, Northern Trust is a trusted partner to help you navigate change. Whether you ultimately decide to build a full-scale family office or opt for a leaner operation, we provide the flexibility, expertise and proactive support your family needs to thrive — today and for generations to come.



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¹The Family Office Insights Series - Defining the Family Office Landscape, 2024 | Deloitte Global
<https://www.deloitte.com/global/en/services/deloitte-private/research/defining-the-family-office-landscape.html>

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