

## Family Office Planning

Wealth has the ability to help families achieve their personal goals, start businesses, foster employment and support charitable organizations—all in all, wealth contributes to the world in full. In order to accomplish these financial goals it is important to transfer your wealth the right way, and to make certain your heirs are prepared to receive it.

Not only monetary – wealth encompasses intellectual and emotional capital as well. When managing wealth within the family, one must have the understanding and skills needed to manage all three. Through Family Office Planning, you can accomplish your wealth management goals while ensuring that your heirs utilize it wisely, keeping your values in mind.

### Types of Family Offices

Family offices are entities designed to manage the personal and financial affairs of one or more families. To date, there are two major types of family offices: the single-family office (SFO) and the multi-family office (MFO). An SFO is a separate family office that manages the personal and financial affairs of just one family. The MFO structure manages the personal and financial affairs of several families. In most cases, the MFO may offer advantages. By working with families that have similar circumstances, MFOs are able to lend their expertise more effectively.

### Who it Serves

Family offices serve “middle-class millionaires,” with a net worth between 1 and 20 million dollars, the “ultra-affluent” with a net worth between 20 and 500 million dollars, and the “super rich” with 500 million and over.<sup>1</sup> Families with a net-worth of \$10 million are often the underlying families introduced to family office services.

### The Multi-Purpose Family Office

Russ Alan Prince, co-founder of *Private Wealth* magazine, categorizes family offices into two groups: wealth creators and wealth preservers. For wealth creators, the goal is to enhance the wealth of the underlying families; conversely, for wealth preservers, the goal is to conserve the fortunes of the underlying family. The first step in identifying your family office needs is to establish the goals of you and your family. According to *The Family Office: Advising the Financial Elite*, around 80% of family offices focus on managing money for wealth creation, and mainly utilize investments to do so.

### Family Office Governance

The way a family governs itself formally and informally is vital to the success of multigenerational wealth and family office success. Formal governance documents present rules, rights and restrictions around the wealth and investment goals. By incorporating such documents, you create a set agreement in the form of bylaws, mission statements and operating agreements. It also helps prevent litigation and wealth debauchery in future generations.

Informal governance (IG) centers on team building, communication and establishing values within a family structure. In the article *Intergenerational Wealth Transfer*, it explains that many families have difficulty implementing their goals because they don't develop strong informal governance. “When a family is facing its toughest challenges, it is important to come back to a core set of guiding principles, which often get perpetuated through informal rules of conduct and communication.” Think of IG as a means to achieving solidity within your family, especially after major life events, like death in the family or graduation from

college. “Living” the family’s values and establishing strong work ethic within your family are equally important factors in developing informal governance.

**Family Communication Is Critical**

An integral piece to successful informal governance is family communication. It is critical to communicate the effects of poor decision-making and spending habits to the next generation. Effective communication not only focuses on wealth creation and preservation, but also formulates strategies aimed to educate future members of your family.

An effective strategy is to encourage clients to treat their family’s finances and practices as if it were a business. By relying on financial documents, such as balance sheet and profit and loss statements, fiscal discipline is maintained.

First and second generations that are educated early on about the family’s wealth, philosophies and values generate a greater respect for the previous generation’s hard work, and in turn, may exhibit more fiscal discipline.

Perhaps the most important topic to consider during the early stages of family office is family values. Older generations have to determine the best ways to instill values to subsequent generations. Often times, family dynamics can act as a barrier when establishing shared goals and values. However, it is a necessary step when defining a family mission statement. By working cohesively with your advisers along with multigenerational family members, everyone gains a deeper understanding of the estate plan, all while improving family communication skills.

**Ecosystem of Services**

Family offices have an ecosystem of services, and deliver with a high level of personalized attention to each underlying family.

Wealthy families rely on key services which include:

- Investment Management
- Advanced Planning
- Business Advisory
- Administrative Services
- Personal Planning

These services, which are contingent upon and tailored to the needs of the underlying families, can be offered in-house or through an outside party. Having someone oversee services provided to you can help filter out any mismanagement of your wealth. Supervision should be done by those with an extensive knowledge of the functions behind family office planning. In turn, this can benefit you and your family.



Altogether, a family office provides a means to foster perpetual wealth. Whether single or multi-family, or swaying between formal and informal governance, the right adviser can help tailor your needs by identifying your unique status and financial goals.

**Sources:**

1. *The Family Office: Advising the Financial Elite*. Russ Alan Prince, Hannah Shaw Grove, Keith M. Bloomfield, Richard J. Flynn
2. Jim Duggan Article: *Avoiding Wealth Death Spiral*
3. [http://www.harrismycfo.com/pdf/PDF\\_12\\_Family\\_Office\\_Separate\\_from\\_Business.pdf](http://www.harrismycfo.com/pdf/PDF_12_Family_Office_Separate_from_Business.pdf)
4. *Intergenerational Wealth Transfer: Informal Governance as a Key Ingredient*. Michael Pompian, January/February 2014.

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