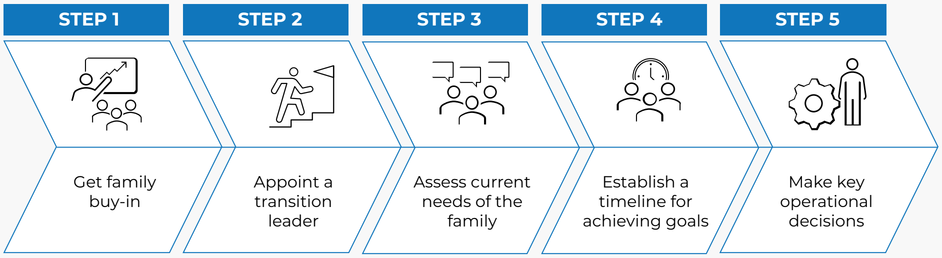
FAMILY OFFICE EXCHANGE INSIGHT

Breaking Away

Separating Family Wealth Management from the Business

JULY 2021

At some point, your family wealth may be so complex, or a significant transition happens that starts a process to form an independent family office outside of the business. Whatever the reason, separating family wealth management from the business should be considered an evolutionary process and starts with your family gaining consensus to establish an independent office or use outside partners. Here are 5 typical steps you should consider in this process, each outlined in more detail below.



1 STEP ONE – GET FAMILY BUY-IN

Ensure your family is united in their desire for a family office. A key first step is aligning the family around collective wealth management goals. Why should the family stay together? What is the wealth's purpose? Is your goal wealth preservation and growth, family continuity, family philanthropy, or something else? If that is not clear, managing your wealth together may not be necessary. Address those questions before your family agrees to start an office.

> "Whether the family intends to own the business for generations, anticipates selling the company soon, or already has significant liquid assets, the ability to manage and preserve wealth across future generations is a complex and challenging goal.

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If starting your own office is the choice, examine how it can best support your family's goals, such as:

- Integrated planning and execution
- Pooled purchasing power
- Advisor monitoring
- Conflict mediation
- Confidentiality and privacy
- Service customization
- Charitable giving alignment
- Holistic risk management

When greater buy-in or up-front support exists around the wealth's purpose and how a family office will support your goals, family members are more likely to help. In addition, widespread involvement from the beginning is necessary to gain consensus on the office's key objectives. This, in turn, provides office executives a clear mandate and helps establish appropriate client expectations.

2 STEP TWO – APPOINT AN OUTSIDE TRANSITION LEADER

Choosing someone to lead this process is critical for its success and continued momentum. You likely already have a trusted advisor in a company executive or another key employee. But that person may not be right for managing your transition into a family office. They may lack required family office skills or knowledge. Or they may not want to leave their established career.

Rather than familiarity, the top qualification for leading this process should be either direct family office experience, integrated wealth management experience, or an ability to identify the external resources and expertise required. Family office work requires a desire to take on a new challenge and deep respect for private family wealth stewardship. This may mean your trusted business advisor is better suited to sit on your advisory board as someone who understands and represents the family's interests. But if, in the end, they are chosen to lead the transition, they should be relieved of former company duties to focus on minimizing its risks.

3 STEP THREE – ASSESS CURRENT NEEDS

Services vary significantly from one office to the next, and it's important to set expectations. Carefully evaluate your current service consumption patterns to determine which services you want from your future family office. What personal financial services does the company currently provide that aren't business-related? Which services need to be continued, and how do you separate them from the company? Who currently performs them? Will any of those people transition over to the family office? Do you need other services not currently provided?

Typical family office services include:

	Investment Planning
	Lifestyle/Concierge Services
	Family and Office Governance
	Wealth/Tax Planning and Admin
	Risk Assessment and Management
	Family Engagement and Education
	Philanthropic Planning and Admin
	Recordkeeping and Reporting
	Family Office Strategy and Management

This step can be eye-opening – you may not have been able to accurately account for the cost of managing wealth inside the family business before. One executive was surprised to learn their costs were often underestimated by $30,000-$40,000 a year.

Another noted one of the biggest benefits of a separated family office was, "The cost of managing the wealth is now readily visible to people — there is a new awareness and people understand these costs have to be paid either by the trusts or by the beneficiaries." It forces the issue of developing a formal budget that estimates the annual expenses required to serve the family.

4 STEP FOUR – ESTABLISH A TIMELINE

Family office priorities depend on your immediate and long-term goals. The timeline for achieving them should align accordingly. Just as family members need to buy in on establishing an office, they also need to agree on when. A clear timeline with realistic expectations provides office executives direction and helps set priorities.

Like strategic planning in any business, the family office's goals and objectives should be carefully planned before formally opening its doors. Because establishing a family office is often prompted by another significant transition, any advance planning goes a long way. You're more likely to be overwhelmed if you wait until after a triggering event occurs.

5 STEP FIVE – MAKE KEY DECISIONS

Business-owning families often want to keep things simple, which is why they manage family financial affairs inside the business in the first place. However, even if you begin with a non-structured approach, you need to make formal structural decisions once you begin to hire staff and solidify service plans.

BUILDING THE INFRASTRUCTURE

Formally managing shared family wealth requires three key operational systems: governance, ownership, and appropriate legal structure. Governance is about reaching decisions, assuring constituency participation, dealing with conflict and change, and establishing long-term family cooperation. The family office structure can formalize family governance, which in turn affects the decision-making process.

You may decide specific generations primarily own the office, all family members are equal office owners, or a family trust owns it. The office's legal structure must reflect its governance and ownership so that roles and responsibilities are clear.

STRUCTURING AND ESTABLISHING A LEGAL BUSINESS ENTITY

Like any other business, a family office requires a legal structure for regulatory and tax purposes. To determine the most appropriate structure, decide the office's primary purpose and what you want it to accomplish.

Many families choose a limited liability company (LLC) for simplicity; a wide range of structural options exist. Just realize the choice will affect many other office aspects well into the future.

Other questions to consider now, or as the office gains complexity:

- Should you structure the office or investment management company as a profits-interest structure to allow for investment expense deductions?
- If you have a significant number of trusts and want additional management control, continuity, and privacy, you may want to consider creating a special purpose entity (SPE) and directed-trust structure or a private trust company (PTC) for fiduciary services.

DON'T RUSH THINGS

Be intentional and strategic about establishing an office in a way that reflects and supports your values, priorities, and goals. Thoughtfully decide why the family should stay together, the wealth's purpose, whether to form an office, what services to provide, and how to structure the enterprise and operations. Rushing the process can cause conflict and might eventually need to be undone.

Whether your family intends to own the business for generations, anticipates selling soon, or already has significant liquid assets, the ability to manage and preserve wealth across future generations is a complex and challenging goal.

Establishing a separate family office dedicated to each family member's unique financial needs may be the right solution for your family.

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FOX offers a special version of our FOX Family Office Design Workshop was explicitly created for business-owning families with embedded family offices (i.e., where employees of the business currently provide services for the family).

The workshop will address whether it might make sense to separate the office from the business and will review your options, including outsourcing services to a wealth advisor, setting up your own single family office, or somewhere in-between.

The next workshop will be held virtually on September 29-30, 2021. To learn more about the event, and to register, please visit: **www.familyoffice.com/FOD21**.

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