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Serious Money: Managing the family fortune

Michael Nairne, Serious Money

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Super wealthy Canadian families grappling with the challenge of preserving and growing their capital for future generations are turning to family offices, a practice first established by the Rockefellers.

Family offices are a unique and growing option for affluent Canadians who are concerned with family wealth preservation and want a coordinated approach to their finances.

In its most general sense, a family office is an entity that solely manages and administers wealth for families of exceptional affluence.

Family offices originated in the United States in the late 1800s as wealthy industrialists grappled with the challenge of preserving and growing their capital for future generations. The Rockefellers were among the first to establish a family office. Originally focused on investments, the meteoric rise in taxes in the early 1900s triggered an even greater need for family offices. Estate taxes in particular, where the top rate hit 77% in 1941, established the need for long-term planning if family wealth was to endure for multiple generations.

Since then, family offices have evolved into three main types. The first remains the traditional single-family office focused on the centralized management of a single family's wealth. Activities range from the mundane, such as accounting and routine tax compliance, to the complex, including investment management, estate planning and philanthropic activities. Many single-family offices also perform personal services, such as paying bills and managing household staff. In the United States, some single-family offices service the needs of hundreds of sixth- and seventh-generation descendants.

As the minimum annual cost of running even a rudimentary family office is in the order of $500,000, a single-family office structure only makes economic sense for families with more than $100-million of assets. As a consequence, multi-family offices — family offices dedicated to serving the needs of multiple families — have sprung into being. Typically, these were originally founded by an individual family, but moved to handling the affairs of a number of affluent families to access synergies in investment management and operational economies of scale. Our family office is of this ilk. In the United States, Bessemer Trust, which was founded in 1907 by the Phipps family and now has more than 2,000 clients with average assets of $27.7-million, is the leading multi-family office.

The third and newest form is the commercial multi-family office. These are mostly boutique operations formed to offer comprehensive wealth-management services to affluent families without the auspices of a founding family. In recent years, some banks have launched dedicated family office divisions.

There are several critical characteristics that differentiate multi-family offices from traditional investment management firms serving the wealthy. First, family offices are founded on a multi-disciplinary framework and are staffed by financial planners, accountants and lawyers, as well as investment professionals. Second, family-office professionals have a deeper understanding of both the challenges of managing significant wealth and the unique particulars of their clients' financial affairs. Third, family-office services go far beyond investment management to encompass tax planning, budgeting and cash-flow planning, risk and insurance assessments, intergenerational wealth transfer planning and philanthropic strategies.

Finally, multi-family offices are usually independent and, on the investment front, work with a variety of carefully selected third-party managers. Hence, they also offer consolidated reporting of all of a family's investments. Even the performance metrics are different. Family offices are concerned with after-tax returns — most traditional investment organizations still focus on pretax returns.

You don't need $50-million to be a family-office client. With outsourcing and ever-expanding technology, many family offices now have the capacity to service penta-millionaires.

Author Brian Tracy once said, "Money is hard to earn and easy to lose."

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