



Reaching the Family Office Tipping Point

6 Signs it's the Right Move for Your Family

By Gemma Leddy, CPA

Is now the time to set up a family office? That's the million dollar question, or more likely the \$50 or \$100 million question, facing many wealthy individuals and families who have accumulated significant assets. The problem is there's no set answer.

While \$50 million in investable assets is a potential trigger for creating a family office, there are people and families with significantly more assets who haven't taken that next step. The reality is the need to set up a family office is more about complexity, privacy and managing information and resources than it is about hitting a magic number.

While there's no hard and fast number, there are certain warning signs consistent across families that likely indicate it's time to make a move. To help wealthy individuals and families who are considering a family office, we've outlined some common warning signs to help them realize when the family office tipping point has been reached and it's time to consider a holistic approach to wealth management and asset protection.

The six most common warning signs include:

1. Tax Information Time Crunch

Tax season can be a useful bellwether in determining if managing your assets could benefit from a family office. The more disparate and complex assets become, the more difficult it is to manage the accompanying paper trail. Reporting needs to be relevant, accessible and timely in order to help you make decisions. If tax season and gathering necessary information in general brings chaos and uncertainty for your family, the consistency and oversight that comes with a family office could help relieve that burden.

2. Disparate Function Dysfunction

When wealth is accumulated over time, an individual or family usually hires multiple advisors or experts to handle the varying aspects of their investments, their business or

their lives as needs arise – from attorneys and accountants to investment managers and property managers to name just a few. That approach likely will work for a time, but as more wealth is accumulated more outside advisors are often added to the mix. Unfortunately, in many cases the sheer volume of functions and outside experts becomes overwhelming with little communication between them and a lot lost in translation. These disparate functions create dysfunction and often point to the need for a family office to bring order to the complex.

3. Fumbling Fiduciary Responsibility

With an expanding number of trusts comes the need for a fiduciary to take responsibility of managing assets on behalf of the family. Even if a family member has the time and interest to serve as the trustee, the family's wealth could be at risk if the de facto party is unaware of shifting regulations and lacks education and experience needed to be the primary decision-maker. Furthermore, giving any one person too much authority opens the family up to risk. Checks and balances must be put in place. When structure is lacking, a family office will provide the governance you seek.

4. Blurred Lines and Privacy Pressure

It's not uncommon for a successful business person to have business employees assist in their personal financial management, but when the lines become too blurred, that overlap can create significant problems. When business employees perform personal financial tasks, they gain insight into the owner(s)' net worth and personal financial information, which gives rise to privacy concerns and other issues. Beyond that, both sides suffer. The business isn't getting the attention it deserves nor is the personal. And it's not always just employees who struggle with boundaries. Many times business owners get so tied up with personal wealth issues they find it difficult to get to their real jobs. When the lines between business and personal become too blurred, it should be clear that it's time to start a family office.

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5. Document Hide and Seek

In this day and age, information truly has become an asset, but it's difficult to leverage if you don't know where it is when you need it most. It's all too common to see bulging folders with stacks of papers, dozens of spreadsheets and files on different computers and frustrated family members playing document hide and seek when they should be focusing on getting things done. It might seem like an exaggeration, but it's all too real for many families who have outgrown manual systems and are trying to make due with makeshift processes and overworked memories. When document overload starts happening regularly, the need for secure and organized systems overseen by a family office should be next on the docket.

6. Next Gen Neglect

As a family's wealth grows and matures, it's only natural for the next generation to become active in managing the family wealth, or at the very least have individual financial needs that must be met along the way. The more family members and generations, the more variables there are in the process, resulting in more strain on resources. When the needs of the next generation become too much for the family business to handle effectively, it's likely that the family office tipping point is not far off.

These are all warning signs that a family office tipping point is on the horizon, but they likely all won't happen at once. The need for a family office is more a progression than it is a true light bulb moment. There are so many factors to

consider; from the number of employees a business has, to the number of family members who are involved, to the number of advisors, amount of assets and even the type of investments and degree of involvement and control that family members want to shoulder.

The decision to start a family office often comes down to a cost benefit analysis. Take a close look at the amount of stress family members are feeling, the amount of time tasks are taking up and what kind of lifestyle your family truly wants to lead. If you are seeing red flags in these areas, take it seriously and begin formal discussions with key decision makers before you reach the tipping point. Your family wealth likely hangs in the balance.

Unfortunately, acknowledging the warnings signs and making the decision to start a family office are only half the equation. If you're peering over the edge toward establishing a family office, there are critical steps you and your family must take to make sure it's set up for success. Once the decision is made, the process really begins, and it's critical to take the right steps to ensure the family office is set up in the right way to be successful in the long run.

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