It's an Age-Old Question: What Exactly is a Family Office?

By: Maurice M. Redhead

What is a family office, and what services does it offer? If you are in the accounting and finance industry, you may have heard the term before, but even a good number of professionals in this industry do not know what a family office does or the services it can offer.

In a Martin Bridge Accounting (MBA) survey, when the participants responded to questions about what a family office is, the most frequent answer was that it is some type of investment house, hedge fund, or private equity firm. Part of this is true, but the other part is not. There are so many versions of what people call a family office today. They have no idea what the definition really is; most people have lost familiarity with the term.

The history of family offices began in the sixth century, with a king's steward placed in charge of managing the royal wealth.[1] However, the more modern concept, or United States concept, of the family office began in the 19th century with the financier and art collector J.P. Morgan. That family office was called the House of Morgan.[2] Just like J.P. Morgan, the Rockefellers had their own family office, which is still in existence today. The Vanderbilt family is another prominent family in the United States that has a traditional family office setup.

Here is list of a few of the traditional family office services that prominent families have provided:

- Family governance
- Financial planning
- Financial reporting
- Tax preparation
- Investments
- Insurance
- Attorney services
- Real estate
- Banking
- Charity and philanthropy
- Trust and corporate services
- Concierge services
- Private schooling

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[1] See the EY Family Office Guide page 4. https://www.ey.com/Publication/vwLUAssets/ey-family-office-guide/$FILE/1006031-family-office-guide-hr.pdf

[2] See the EY Family Office Guide page 4. https://www.ey.com/Publication/vwLUAssets/ey-family-office-guide/$FILE/1006031-family-office-guide-hr.pdf

- House whole staff
- Non-financial issues

As you can see from the above, a family office involves more than just investments. However, the main purpose of a family office is to organize and manage the family's personal wealth and to ensure the family's paperwork is current and up-to-date. If these family offices are run correctly, they can prove highly profitable for the family. Additionally, all family offices are typically limited liability companies (LLC), trusts, limited partnerships (LP), corporations, etc. and are privately owned companies.

Over the years, there have been several types of family offices. The most common ones are single family (SFO), multifamily (MFO), and embedded family (EFO) offices. The next section discusses these three, beginning with SFOs.

Main Types of Family Offices

Before discussing SFOs, it is important to note that a number of families in the U.S. have a family office, but the family office system is not set up under a legal entity. These families begin their non-legal entity family office with just their financial professional—usually their accountant—and the family legal counsel. This is the first step to really think about starting a family office. Now let us discuss the SFO.

The Single-Family Office

Just as it sounds, an SFO is a legal entity that serves one family only. In the United States, the more traditional SFOs include the Rockefeller family office. I would say the Rockefeller family office is perhaps one of the most complete family offices in the U.S. because it offers:

- Wealth planning
- Wealth management
- Tax planning
- Trust and corporate services
- Family governance
- Charity and philanthropy services
- Property management

The Multifamily Office

An MFO services multiple families' wealth. The families will form a team that may work on a retainer or hourly basis. Families that have formed an MFO team will then acquire a professional with a proven track record and years of experience to work with their MFO team members. An example of a professional with a proven track record is an accountant with 16 years or attorney with 20 years of experience in the family office arena.

MFOs are closely related to traditional wealth management and private wealth management offices. The services in an MFO can also be less expensive then those in an SFO at times. Here are some of the services an MFO can offer, though some MFOs also offer executive services:

- Financial planning
- Portfolio management
- Concierge services
    - Travel arrangements
    - Family vacation plans
    - Getting the family car washed
- House staffing

The Embedded Family Office

An EFO is different than an SFO or MFO. An EFO lies within a business that is owned by an individual or family. The individual or family thus manages their private wealth alongside their business. One of the most famous EFOs in the United States is Koch Industries, though the family is better known as the Koch Brothers. Managing an EFO has it challenges, with one notable challenge being separating business wealth from family wealth. This can be done, but the CFO of the EFO has to stay on top of this task. For this reason, some families and individuals now want to separate their business wealth from their personal assets.

Family Office Services

Family offices provide many different types of services. At the heart of some family offices is the investment service, but a full-service family office can provide a number of services like family education, family governance, and philanthropy.

The Cost of Running a Family Office

It is difficult to say how much a family office costs. It is speculated that the minimum in the U.S. to run a family office is $1M annually, but this could be a lot more.[3] Some even say that the cost of running a family office is between $100M and $500M, with MFOs costing less than SFOs at $100M or less.[4] This is because in an MFO, the families can choose what type of services they want to offer; in an SFO, the family's services and staff are not usually outsourced. The services and staff are usually in-house. In an MFO, services can be outsourced, meaning the family office does not

[3] See the EY Family Office Guide page 22. https://www.ey.com/Publication/vwLUAssets/ey-family-office-guide/$FILE/1006031-family-office-guide-hr.pdf

[4] See the EY Family Office Guide page 22. https://www.ey.com/Publication/vwLUAssets/ey-family-office-guide/$FILE/1006031-family-office-guide-hr.pdf

have staff on hand, but they have staff when they need them. By having outsourced staff, the family office can significantly cut down costs.

Family Office Governance

Governance in a family office is one of the most important topics to consider, but it is one that most families ignore since they typically focus on finances. This section discusses several important stages that relate to family office governance.

1. Family Planning

The first stage of family office governance is to begin the planning process. The family will thus discuss their vision, family mission statement, and strategy for moving forward. This helps the family lay out how they will manage the office.

2. Family Membership

The second stage, which might be the most important of all the stages, is family membership, as this is where the family members will discuss their assets and how those assets should be protected. Additionally, the family begins here to form a succession plan to determine who is next in line to take the head of the family's place when he or she dies. The head of the family will then confer with all of the family's trusted advisors to determine their input on how to implement the planning phase of managing their assets and succession plan.

The family may also study companies that can work with their trusted advisors. The company that the family chooses will manage the day-to-day operations of the family office. Some of these daily duties are speaking with the trusted advisors and receiving information from them, and making sure the family's bills are paid.

When the family decides if they want a company that can manage the family office's day-to-day operations or not, the next step is to have a family meeting with all the family members. In this meeting, the family discusses transferring wealth to the next generation, how often they plan to meet, how the management of the office should function, and how to resolve any family conflicts.

3. Reliability

In this third stage, the head of the family may at times be hesitant to share the financial health of the family with the children. This has to do with the children's maturity or parental protection if they do not understand the family's history or position. Still, the head of the family has to educate the children on the family's mission statement, history, structure, finances, and overall operation. By educating the future generation of the family with the history, mission statement, finances, and operation, hopefully they will be better equipped to helm the family office if a family member passes on.

4. Family Structure
In the final stage, in terms of family office governance, if family membership is most important, then family structure is second most important. Family structure is one of the beginning steps that involves the family deciding what legal structure they would like to undertake. They may choose to become an LLC, corporation, partnership, LP, etc. After the family chooses a legal structure, the next step is office management. Management is briefly discussed above, but this is very important for the family office, as the family needs to know who will be running the office. Will it be a key family member put in charge of the day-to-day operations, or will it be an outside company? It could also be a combination of both the family and an outside company.

The family members must also understand that this is a full-time position. They manage everything that the family does, and if they do not have the time for it, everything will go sideways. This is why some families use firms that specialize in family office support. They come in and assist the family on how they should run their office, unless the family already has an office, in which the firm supports whatever the office may need.

Family Offices Are More than Just One-Dimensional

This article is intended to show that family offices are more than just investment houses. Yes, investments are part of a family office, but all family offices must have governance to be able to run like a privately owned company. The main purpose of a family office is the family. What is in the best interest of the family? Not what is in the best interest of the wire house or investment council. Family offices are more then just one-dimensional: they are about the family.

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I am President and Family CFO of Martin Bridge Accounting (MBA).

MBA specializes in supporting families and their family offices, but we do not just serve as a legal entity. We also work with your trusted advisors to guarantee they work in your family's best interests. MBA offers additional services such as financial planning, financial reporting, bill payment, and investment oversight, just to name a few. The goal of our firm is to ensure that your office runs like a large, successful company.