Is a Shared Family Office the Next Step for Your Family?

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Many family offices start organically as a minor extension of the family business rather than a separate entity with its own mission and values. Because it is "embedded" within the business it can easily undergo mission creep as its role evolves and expands over time.

When a company is still being run by the founder, it can make perfect sense to have the company's bookkeepers continue handling the personal bill paying, cash management, and taxes for the family because the business and the family are essentially the same. As the family grows in size and wealth, other professionals are brought in to coordinate its investments as well. Eventually, a small group of employees are embedded in the family business, devoted strictly to the family's wealth administration.

In other cases, the genesis might be a virtual family office, managed by one or two family members, which looks after the family's money. They work with a range of outside service providers such as investment advisors, CPAs, and attorneys. The virtual family office arrangement differs from an independent single-family office in that it uses more outsourced providers as opposed to the in-house resources of a single-family office.

But these arrangements rarely work beyond the first generation. Over time, as wealth multiplies and the extended family comes to include several generations, individual family units naturally develop different needs that require more sophisticated solutions than the embedded or virtual family office can provide.

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especially true in times of transition, growth, or upheaval. For a growing number of SFOs, the next step in their evolution is to work with a larger firm such as a multi-family office or a shared single-family office. This allows the original SFO to maintain its independence and focus on the family while taking advantage of expanded services and economies of scale.

The Pitcairn family office was established in 1923 by the three sons of John Pitcairn Jr., the founder of the Pittsburgh Plate Glass Company, which today is PPG Industries. As the family grew, their wealth management became more complex. Now in our seventh generation, Pitcairn has evolved to reflect a multigenerational perspective with a Shared Single Family Office™ model and a 100% open-architecture investment platform.

Taking the Next Step

It is at this point that many families establish a more formal single family office (SFO), staffed by experienced professionals who may or may not be family members. Although the primary goal of the SFO is to preserve and grow the family's wealth through investments, most also provide a range of other services such as bill pay, tax planning, and estate planning. However, setting up and running a family office is an expensive undertaking. And as the number of family members grows, so does the number of employees needed to staff the family office, greatly impacting the cost-effectiveness of the undertaking.

And then reality sets in — the SFO is faced with a no-win situation. It must either continue serving a growing number of households without increasing staff and budget or dramatically increase expenses to account for new hires and other support. Generally, it takes family assets of at least $500 million to run an efficient SFO.

In addition to being costly to run, an SFO that was originally launched to serve a small group of related people can often be too limited to address the complex needs of an extended, multigenerational, geographically dispersed family. This is

How to Know When the Time is Right

Answering the following 10 questions may help you determine if your current single family office has outlived its purpose.

How well are you serving your family members?

Smaller SFOs, whether embedded in the family enterprise or standing on their own may be unable to provide the sophisticated services that can accompany a shared single-family office model. We have found that some smaller family offices become bogged down with concierge services like bill paying or travel planning while ignoring some of the high-value services such as tax planning, estate planning, and comprehensive investment management.

One family that works with us had originally established an SFO to invest the proceeds from selling the family business. As it advanced to the third generation with more than a dozen households, the SFO was doing a great job with investing but could not keep up with the expanding number of households and their disparate needs. The solution was for them to continue managing the portfolio while using shared family office services for everything else.

What services are you lacking?

An embedded or virtual SFO that started with a limited purpose may not be equipped to meet the sophisticated needs of a multigenerational family that could include several dozen individual households. Wealthy families today need more than just investment management. The roster of important services includes, but is not limited to, financial planning, accounting and bookkeeping, bill payment, philanthropy, tax strategies, estate planning, insurance, and financial education and personal development for younger family members.

Do you have the technology you need?

Technology needs can change quickly and maintaining systems that incorporate new features and provide critical security is an expensive proposition. The cost of outsourcing these services can quickly become untenable for many SFOs that lack the resources, infrastructure, or appropriate skills in-house.

We recently helped a family whose business was spending a fortune on their taxes because they were using an obsolete software that required many processes to be completed manually. Using a shared family office solution, they were able to outsource the accounting, bookkeeping, and consolidated reporting functions, which dramatically increased efficiency while also reducing tax preparation expenses.

Do you really know where your risks are, and do you have a strategy to deal with them?

A narrowly focused family office created by a company founder may not be equipped to face some of the challenges and risks that have arisen in recent years. Cybersecurity has taken on much greater importance as the financial world has become increasingly driven by technology. Hackers and other cybercriminals seem to come up with new schemes almost daily, and staying ahead of their threats to financial data and family privacy is a huge expense requiring constant vigilance that a one-or two-person family office staff may not have the time or skills to deliver.

Is your SFO conversant in tax law?

Other challenges facing SFOs relate to changes in the tax code, such as the provisions of the Tax Cuts and Jobs Act (TCJA) that are scheduled to sunset next year. Those changes will reset the lifetime estate and gift tax exemption to about half the current level. The Alternative Minimum Tax (AMT) exemption and exemption fadeout will revert to pre-TCJA levels as well as the ceiling for charitable deductions.

What do you wish your family office could do but can't?

Among the reasons for SFOs to move to a shared family office model is to gain access to a more sophisticated range of investment opportunities, from private equity and real estate to early-stage ventures and alternative assets.

Do you *really* have the right people on staff?

In many cases when a family office starts within an existing business it is staffed by people who may be really good at their jobs in the operating business, but whose range of skills is somewhat limited. A great bookkeeper may be sufficient to handle the family's bill payments but not the right professional to provide sophisticated tax planning or conduct due diligence on investment partners. Hiring experienced professionals with the requisite skills may be just too expensive for an SFO.

Are your family members actively engaged or disinterested?

As more individuals marry into a family and more children are born, the disconnect between family leaders, wealth creators, and family values and legacy can grow. Just as an SFO may not be structured to incorporate an increasing number of households, many are not designed to accommodate numerous voices, differing opinions, and competing priorities. Even families who recognize these shortcomings aren't eager to address them out in the open. They fear these difficult conversations might cause further damage to relationships.

Ideally, an SFO would serve as a guiding force in generational transitions. SFOs can play a key role in maintaining family values, establishing a family governance structure, and managing interpersonal conflicts. But the SFO must be set up to tackle these functions in an inclusive, sustainable way. If family members perceive that an SFO is not built to serve everyone or family services are not being distributed fairly, the structure can actually do more harm than good. Taking a practical look at the systems in place to serve your growing family is key to maintaining family cohesion for future generations.

How are you engaging your family's rising generation?

As families get larger, progressing through the third, fourth, and fifth generations, personal connections are not likely as deep or as meaningful as they were when the family office was founded. By that point, the extended family is likely widely dispersed geographically, with individuals having very different philosophies and political leanings. Sometimes in these cases, the healthiest solution is for those family members who wish to go in a different direction to split off, letting those with a shared vision develop a new phase of the office. For those who remain with the family office, creating new family experiences such as family meetings can re-create a sense of personal connectivity that future generations will value.

How good is your decision-making?

Every family has different needs, and every family will employ a different structure to meet those needs. Whatever structure a family utilizes, it's important to be proactive about maintaining a sustainable solution that accounts for the complexity that comes with additional households, shifting family dynamics, rising technology costs, and staffing changes. Only an approach focused on solving both the family and financial needs will be effective in perpetuating a family's legacy over generations. A shared family office can provide guidance that can create the right governance structure for a family and provide a wide range of expertise and services at a much lower cost than building it all yourself.

As families evolve and grow beyond the first or second generation things become a lot more complicated. A report by *The Economist* noted that 70% of wealthy families lose wealth by the second generation and 90% by the third, but it does not have to be that way. Sharing services as needed with other families can allow a growing SFO to manage the needs and aspirations of the individual members without breaking the bank.

Pitcairn has a century of experience helping families grow and preserve their wealth. Let us share that experience with you.

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