Missing the Mark

Wealthy Families Benefit From More Comprehensive Advanced Planning Processes

The demand for a comprehensive and integrated wealth management approach has led to a recent proliferation of single-family offices and an extended range of services provided. Increased attention to effective advanced planning, an often neglected but core single-family office component, can help wealthy families better preserve their fortunes.

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The essential objective of the single-family office – harmonious blending of all aspects of the ultrawealthy family lifestyle – has endured for generations. As the world has grown more complicated, the model has proven to be exceptionally adaptable, as single-family office executives have continued to introduce products and services that provide for the long-term financial, physical and emotional well-being of their clients. Families are willing to pay a premium for exceptional execution, recognizing this as one of the principle benefits of wealth.

Given the forward-thinking nature of the single-family office, one might expect a focus on advanced planning techniques to pervade the sector. In conducting our latest survey of single-family office executives, we sought their insights on a range of topics, including estate planning and asset protection strategies. In the process, we made several surprising discoveries. While single-family offices are meeting the most basic family requirements, many are not taking adequate steps to ensure that plans remain current.

Our latest report, *Missing the Mark*, highlights areas where single-family office executives have an opportunity to enhance the client relationship by working to better understand long-term priorities and potential liabilities. As important, this will also enable executives to demonstrate their value to the ascendant generation, as many of these individuals will soon be making critical decisions regarding long-term family goals.

In addition to statistical findings, our latest report highlights core elements of effective advanced planning gleaned from our own experiences with ultrawealthy clients. We hope that you will find this research helpful and engaging, and encourage you to contact us directly to discuss findings in greater detail.

Sincerely,

Richard J Flynn

Richard J. Flynn
Principal and Head of the Family Office Group
Rothstein Kass

For more than five years, our research has documented the accelerating proliferation of the single-family office sector, driven by demand for a comprehensive and integrated wealth management approach among the ultrawealthy.

During that time, we have observed a dramatic increase in the number of single-family offices in operation, as well as the average and aggregate investable assets represented. The growth of the sector also extends to the range of services provided. Traditional asset management offerings are surrounded by an ever-expanding assortment of ancillary services that can include everything from concierge healthcare to family security. By and large, however, offerings still fit within two broad categories – wealth management and support services. Advanced planning, an aspect of wealth management, is best-defined for the purposes of this report as *"the skillful leveraging of legal, regulatory and financial expertise to enhance and safeguard a family's net worth."*

The objectives and benefits of advanced planning are well established. In addition to promoting a coordinated plan, advanced planning strategies often allow very wealthy families to mitigate tax liabilities and preserve their fortunes. While advanced planning encompasses an expansive array of tax and wealth protection services, this report focuses on two critical areas – estate planning and asset protection planning.

Key Themes

Every single-family office surveyed has an estate plan in place. Nearly all of the wealthy families represented in the research have experienced a major life-changing event since the plan was implemented.

Though ultra-affluent clients generally recognize that their wealth can make them a target for criminals and unfounded lawsuits, many have not addressed the threat through an asset protection strategy.

Single-family office executives are ideally situated to initiate and lead discussions regarding advanced planning strategies.

Regularly assessing the evolving needs of the client can help executives develop a dialogue with the emergent generation, promoting greater staff continuity during the wealth transfer process.

The Research

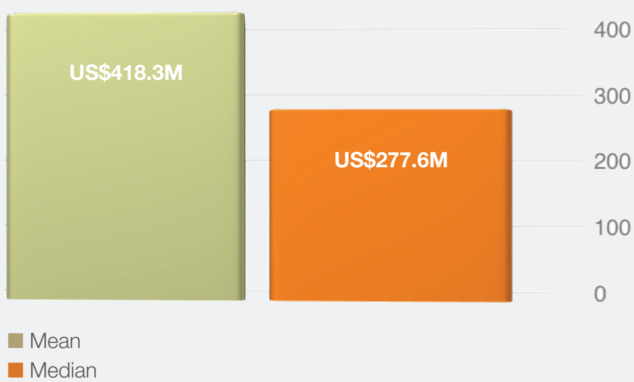
In the first quarter of 2012, we surveyed the executive directors of 74 single-family offices on a variety of topics, including estate planning and asset protection. All participating single-family offices are U.S. domiciled, though many have multiple locations to support the global interests of the wealthy family.

Our research defines a single-family office as *"an organizational structure that manages the financial and personal affairs of one wealthy family."*

The mean investable assets of this sample of single-family offices are in excess of US$400 million, with median investable assets exceeding a quarter of a billion dollars (Exhibit 1).

Exhibit 1:

Investable Assets of Single-Family Offices



N = 74 single-family offices

“Developing an estate plan is among the most basic aspects of advanced planning in terms of its importance, but is infinitely nuanced and complicated in its execution. There are dozens of variables, forecasts and projections that factor into the process and it is inevitable that the client’s needs will evolve,” said Rick Flynn, a principal and head of the Family Office Group at Rothstein Kass. “When implementing a strategy, single-family office executives should also outline a framework for its regular review and refinement.”

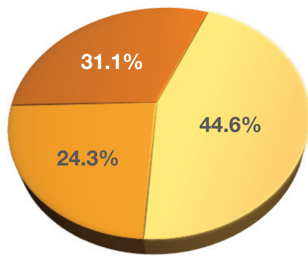
“If inadequately or infrequently reviewed and improved, even the best estate plan will quickly become outmoded. Inattention can also cause the family to overlook potentially advantageous short-term opportunities presented by macroeconomic forces. Single-family office executives have a responsibility to help clients understand that estate planning does not end when the papers are signed. Experience has shown that clients who are more engaged in the process often achieve better outcomes because of their ability to maintain a long-term focus,” said Flynn.

Estate Planning

Estate planning is the process of legally structuring the future disposition of current and projected assets. This is among the most essential advanced planning components, and all of the executive directors surveyed reported that their clients had an estate plan in place. Nearly 45 percent of these plans are more than five years old, however, and roughly an additional 30 percent are more than three years old (Exhibit 2).

Exhibit 2:

Age of the Estate Plans



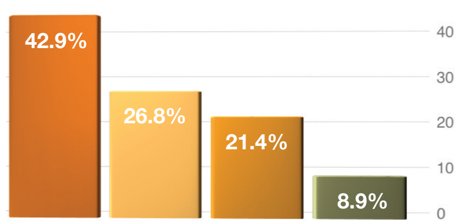
Less than 3 years old 3 years to 5 years old More than 5 years old

N = 74 single-family offices

Using a statistical process called factor analysis we identified the principal motivation for 56 of the wealthy families that do not have up-to-date estate plans (Exhibit 3). More than 40 percent of them indicated that they did not see the need. For another quarter of wealthy families, time constraints were the biggest factor. More than 20 percent of families are reluctant to address estate planning because they find it to be a difficult topic to address.

Exhibit 3:

Primary Reason for Not Updating the Estate Plan



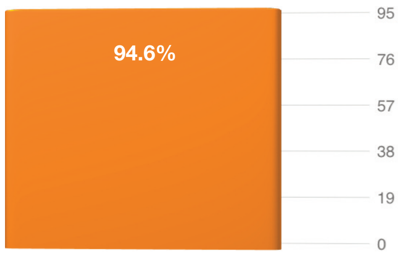
Do not see the need
Lack of time
Topic too difficult to address at this time
Other

N = 56 single-family offices

In light of the diverse and intricate business and personal interest typically associated with this level of wealth, estate plans can be fairly assumed to be outdated after three years. The fact that 94 percent of executive directors surveyed suggested that clients have experienced significant changes since the estate plan was enacted offers evidence for this conclusion (Exhibit 4).

Exhibit 4:

Significant Changes Since the Estate Plans Were Drawn Up



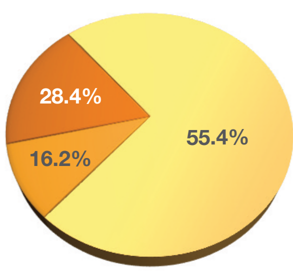
Significant changes *N = 56 single-family offices*

All survey participants indicated that their clients have taken out life insurance to pay estate taxes. Nearly 85 percent of policies have not been critically reviewed in at least three years. More than half of these policies have not been reassessed in more than five years (Exhibit 5).

Like the estate plans, reviewing life insurance policies periodically is advisable. Very often it is possible for a very wealthy family to obtain more coverage for the same premium, or reduce the cost of the life insurance policies by evaluating provisions and providers.

Exhibit 5:

Life Insurance Reviewed



Less than 3 years ago 3 years to 5 years ago More than 5 years ago

N = 74 single-family offices

"Assessing the insurance requirements of the wealthy family is a complicated process that does not necessarily rank high on the client's list of preferred activities. Some single-family office executives choose to retain third-party consultants that assess specific threats and limit liability by blending an array of policies. It is also wise to simultaneously assess potential exposure through board memberships and business interests to ensure personal assets are protected," said JoAnn Ralph, a principal and managing consultant of the Rothstein Kass Insurance and Risk Management Group.

"The days after the client experiences a life-altering event can seem an inopportune time to broach estate planning concerns. However, the single-family office executive has a duty to make certain that necessary modifications to the estate plan are not overlooked. Whether the client is celebrating the birth of a child or coping with the passing of a family member, matters are best handled expeditiously, but also with sensitivity and finesse. Many executive directors at single-family offices rely as much on their interpersonal skills as their professional capabilities," said Flynn.

“Regardless of wealth, accidents happen, businesses sink, and marriages fail. Single-family office clients also understand that some will be emboldened to target them for their wealth alone. This knowledge has driven soaring interest in family security services among the ultrawealthy, while also offering a powerful case for thorough and regular review of the family’s overall asset protection strategy,” said Flynn.

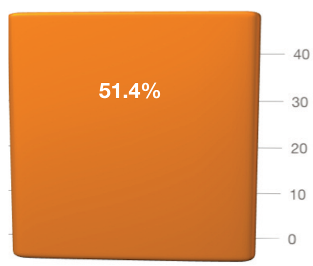
Asset Protection Planning

Asset protection planning is the process of employing risk management products and legally acceptable solutions to ensure a family’s wealth is not unjustly taken from them. The goal of asset protection planning is to provide the very wealthy family with a viable defense against litigants and creditors.

Clearly, the optimal time to prepare for unjust legal actions is before they occur. For this reason, asset protection planning is sometimes viewed as pre-litigation planning. Unfortunately, most wealthy families take measures to protect their fortunes only after a harmful event has occurred.

Exhibit 6:

Family Members Involved in Unjust Lawsuits or Divorce Proceedings

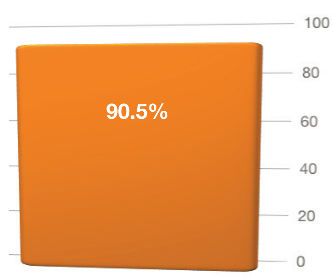


Litigation involvement *N = 74 single-family offices*

According to the executive directors, slightly more than half of wealthy families represented in our survey had been involved in unjust lawsuits or divorce proceedings (Exhibit 6). Nine out of 10 executive directors reported that their clients are concerned about future exposure to such events (Exhibit 7).

Exhibit 7:

Concerned That Family Members Will be Involved in Unjust Lawsuits or Divorce Proceedings

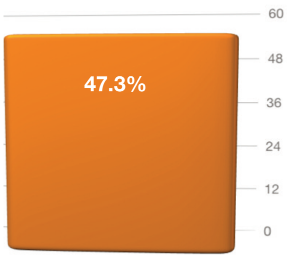


Future litigation exposure *N = 74 single-family offices*

Despite overwhelming awareness that asset protection strategies are beneficial, only half of the very wealthy families have a formal plan in place (Exhibit 8). This means that they have not purposely structured their assets or employed various legal strategies and/or financial products to keep their wealth out of the hands of potential litigants.

Exhibit 8:

Formal Asset Protection Plan



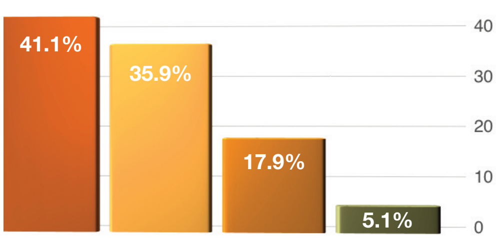
■ Have a plan *N = 74 single-family offices*

"The truth is, in this day and age, there is absolutely no legitimate excuse for not having an asset protection plan in place. History has shown that personal liability policies are sometimes insufficient, and that in legal disputes, the righteous do not always prevail. The single-family office model is designed with the capability to find and fill cracks in the family's defenses. Following through with other advanced planning functions while ignoring this critical component is equivalent to leaving one side off of a shark cage," said Flynn. "In general, single-family office executives need to do a better job of educating their clients regarding the benefits of asset protection planning."

Factor analysis allows us to identify the principal motivations for not implementing an asset protection plan (Exhibit 9). Roughly 40 percent of very wealthy families responded that they do not perceive the need.

Exhibit 9:

Primary Reason for Not Having an Asset Protection Plan



■ Do not see the need ■ Lack of time ■ It's too complicated ■ It's illegal

N = 39 single-family offices

"Taking preemptive measures to limit financial liability in the event of a disadvantageous legal outcome is the central component of the asset protection strategy. There should also be a clear method for quickly assembling a task force to immediately respond to situations as they arise. The single-family office can serve as a base of operations in formulating an appropriate course of action. In addition to the financial risks, there are often reputational and emotional consequences to consider. In such situations, the single-family office executive is often tasked with managing professional relationships as a component of the asset protection strategy," said Flynn.

Eight Core Elements of Advanced Planning

From our experience, there are eight core elements of advanced planning that work in concert. The quality of the solutions that come from advanced planning is very much a byproduct of an applied understanding of these concepts, briefly explained below:

Flexibility involving changing and adapting to evolving situations or shifting legal and financial environments.

Discretion is central to the relationship between the advanced planning specialist and wealthy client.

Transparency is a requirement for both other advisors to vet the solutions as well as appropriate authorities.

Cohesiveness involves creating synergies across two or more areas of advanced planning, such as estate planning and asset protection planning, for example.

Risk Sensitivity is the extent to which advanced planning solutions take into account the various risk tolerances of the wealthy family.

Explicitness is communicating advanced planning solutions in a way that is comprehensible to all involved.

Cost-Effectiveness is the weighing of the advantages of an advanced planning solution with the financial and psychological costs.

Legitimacy refers to the fact that all advanced planning solutions are “bright line” transactions.

About the Authors

Russ Alan Prince is the world's leading authority on private wealth, the author of more than three dozen books on the topic, and a highly sought counselor to families with significant global resources and their advisors. He is co-author of *The Family Office: Advising the Financial Elite.*

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Richard J. Flynn is the principal in charge of the Rothstein Kass Family Office Group, awarded 2012 Best Multi-Family Office Service Provider. A lawyer specializing in advanced planning and advising high-net-worth clients on wealth enhancement, wealth transfer and asset protection planning, Rick also consults on family office creation, best practices and operations. Rick advises clients, including business owners, executives, hedge fund managers, professional athletes and entertainers, on lifestyle management as well as managing their personal financial affairs. He is co-author of *Fame & Fortune: Maximizing Celebrity Wealth* and *The Family Office: Advising the Financial Elite*. Rick is a frequent speaker at seminars and conferences on topics related to wealth management for high-net-worth individuals.

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About the Contributor

JoAnn M. Ralph is the managing consultant of the Rothstein Kass Insurance and Risk Management Group (RK Risk Management, LLC), an affiliate of Rothstein Kass. The group provides insurance consulting, risk management, litigation support and disaster planning services to business consumers. RK Risk Management does not sell insurance. Its commitment is to provide clients with unbiased and independent information about their insurance/risk needs and the methods to obtain the financial security they desire efficiently and cost effectively. JoAnn has been employed in the insurance field for over 35 years with substantial experience on both the company and agency sides of the business. During her career, she has held positions such as underwriter, producer, agency vice president and risk management consultant. JoAnn is a nationally recognized presenter on insurance topics.

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Rothstein Kass is a premier professional services firm that has served privately held and publicly traded companies, as well as high-net-worth individuals and families, for more than 50 years. As trusted advisors to our clients, Rothstein Kass provides accounting, auditing and tax services, as well as a full array of integrated advisory services, to clients across industry spectrums and in all stages of organizational development.

The Rothstein Kass Family Office Group offers a wide range of financial, wealth planning and lifestyle management services to family offices and high-net-worth individuals. The Family Office Group applies proven expertise with the utmost discretion and attention.

Rothstein Kass has offices in California, Colorado, Massachusetts, New Jersey, New York, Texas and the Cayman Islands.

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