

By Julie Steinberg and Kelly Greene of the WSJ May 17, 2013 6:02 p.m. ET

You don't have to be a Rockefeller to join a family office.



Illustration by Adrian Lubbers

Family offices are private firms that manage just about everything for the wealthiest families: tax planning, investment management, estate planning, philanthropy, art and wine collections—even the family vacation compound.

Now many family offices are courting the merely rich.

The price of admission is still steep, and having your own personal chief financial officer doesn't come cheap. But the help is worth considering.

Single-family offices gained popularity in the 1800s to manage the burgeoning fortunes of tycoons such as the Rockefellers. The offices offer many of the same services as top-tier private banks and wealth managers but are devoted to a single family.

The attention can cost \$1 million or more per year, industry experts say, meaning family offices make financial sense mainly for families with at least \$100 million in assets. There are about 5,000 such households in the U.S., according to the Family Wealth Alliance, a research and consulting firm in Wheaton, Ill, and Wealth-X, a wealth-research firm based in Singapore.

By contrast, there are about 100,000 households in the U.S. with between \$5 million and \$10 million in investible assets, says Tom Livergood, founder and chief executive of the Family Wealth Alliance. The figure is expected to grow, he says. Entrepreneurial wealth managers are starting "multifamily" offices, which handle a handful to hundreds of families as clients.



Illustration by Adrian Lubbers

"Even though I may have had an interest in investments, I don't have time to think about it," says Bernard Morrey, an emeritus orthopedics professor at the Mayo Clinic in Rochester, Minn. "You can't be an expert in very many disparate professions."

Dr. Morrey is a client of a Family Office in New York, which grew out of a hedge fund and targets families with at least \$5 million to invest. He says that working with a family office "is so important if you want to have a reasonable return on your assets. Their first role is to protect your assets, and then to grow them."

Most multifamily offices are open to clients with at least \$20 million to invest, but the average client has \$40 million to \$50 million, says Mr. Livergood.

Does your family qualify for a family office? Or would the sale of a business, inheritance or other windfall push you into that category?

Here's what you need to know.

Is It Worth It?

Sharing high-end wealth management services with other families can cost 0.25% to 1% of assets each year per family. There is usually a sliding scale, with families having more than \$200 million in assets generally getting the lowest fees. Fees often include consolidated financial reports and investment management, but some firms charge more for estate planning.

For offices making overtures to those with fewer than \$10 million, fees range between 0.75% and 1%, industry experts say.

On top of the basic fee, clients usually pay separate fees to outside fund managers or for any legal or accounting work done by an outside firm. Family offices will also generally accommodate any outside professionals a new client wants to keep.

Clients of multifamily offices also pay less for staff salaries and other overhead by sharing the costs with other clients.

Besides providing investment advice, family offices can provide a benefit that is tough to quantify: fostering family harmony by creating better communication among relatives.

For example, instead of a father having to tell his son with a trust fund that he won't get his inheritance unless he graduates from college, the family office can help educate the children that this is the way the trust works, and if you don't meet the expectations, you're not going to get the distribution.

Communication is critical with these families because their wealth is so interconnected, Communication between generations, family education and conflict resolution can help to preserve wealth.

Who's Signing Up

Multifamily firms are proliferating, and they are grabbing more money to manage. Their numbers have increased by 33% in the past five years to more than 4,000 in the U.S.

Assets under advisement at the 51 multifamily offices surveyed by the Family Wealth Alliance totaled \$377 billion at the end of 2011, up 9.6% from a year earlier. Those assets account for three-quarters of the entire multifamily office industry, which handles some \$450 billion in all.

Demand spiked for better investment advice and coordination of assets after the financial crisis.

The offices also are attractive because the professionals who run them often are paid by the families themselves, so there is no incentive for them to push products, says Mr. Bergman of TAG Associates. (Offices typically contract with banks and investment firms to provide deposit and trading services but aren't paid commissions.)

Families looking for a multifamily office should make sure to find out how employees earn their money.

A family office "provides you with unadulterated risk-benefit analysis for any question you have about your assets," says Dr. Morrey. "They don't bother you and say, 'We've got this great opportunity.' "

Weighing the Benefits

If you have \$5 million in assets to invest, is the expense of a family office worth it? The answer depends on what services your family wants most.

New Investment Choices

Setting up a family office can create access to different types of investments.

Increasingly, the wealthiest families are starting to sidestep private-equity funds to invest on their own or with other families in privately held, middle-market companies that can use the families' know-how.

The number of family offices interested in making direct investments more than doubled to 504 last year from 224 in 2010, says John Rompon, managing partner at McNally Capital, a Chicago firm that advises families working together to make direct investments.

McNally gathers about 65 families for meetings three times a year to discuss potential investments, such as solar power and water treatment, and match up potential partners.

Family Squabbles

What if the family has a dispute?

One relative whose family works with Citi Private Bank's North America Family Office Group didn't want to have any "sin stocks," such as tobacco- and alcohol-related investments. But the rest of the family disagreed and refused to liquidate those holdings, says group head Mr. Campbell.

The fix: breaking out the dissatisfied relative's share of the holdings and using it to fund a "socially responsible" investment vehicle managed outside of the family office.

To leave the family office, an individual family member can move those investments out if those holdings are in his or her name already.

Other Options

Families a few million dollars shy of the cut for a multifamily office can replicate some of the experience with other wealth-management services.

Also, look for a firm that will designate a financial "quarterback" to serve as the go-between with all of your advisers, including lawyers, accountants and other professionals. The quarterback needs to make sure everyone is in the loop and executing the same financial plan.