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Expanding the Benefits of a Family Office to the High-Net-Worth Client

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The term ''Family Office'' to an experienced advisor, conjures up several different visions and types of arrangements, all based on their individual experiences. One may envision a team of advisors in one space working together on all aspects of the personal and business affairs and needs of that one family. As opposed to the multi-family office where a team of advisors in one physical location share the expenses and billing hours among two, three or more families. Today, as a result of the pandemic, we can all easily imagine the *virtual/collaborative Family Office* where a group of advisors working jointly for a group of families do so from each of their respective offices via a Zoom or Microsoft Teams call. Doing so cuts down on the operating expenses for each of the families and allows them to share the cost of obtaining expert information from anywhere in the state, or country. In either case the Family Office manager acts as a client's chief advisor and addresses the needs of the high net worth (HNW) and the ultra-high net worth (UHNW) clients.

One such collaborative multifamily approach was organically grown. Several years ago, Long Island attorney Joe Campolo, Managing Partner of Campolo, Middleton, McCormick, LLP, and Alan Sasserath, a Long Island CPA, and Managing Partner of Sasserath and Co., began working jointly to develop a management company with a like-minded philosophy where their clients' business and personal financial and legal issues, and more, could be addressed, managed, and solved. Their vision of a Family Office provides a solution to managing the full spectrum of a client's financial, legal, and other concerns affecting the HNW and UHNW individual and or family. Campolo looks at it from the client perspective, saying, ''[t]he client and their needs are paramount. Using this client-centered approach, the broad spectrum of private wealth management services — including accounting, tax, mergers, risk management or asset protection — succeeds through the seamless collaboration of the professionals involved.'' He emphasizes, ''[i]t's important for attorneys to maintain a bird's eye view to ensure that nothing slips through the cracks. Attorneys can best handle corporate and M&A issues along with labor & employment law in conjunction with a CPA and other professionals to maximize a client's wealth creation, estate planning, and charitable giving strategies.''

Some believe that the Family Office is a relatively recent business model, but its roots actually date back to the sixth century. In those times, wealthy leaders and royal families would entrust the management of their wealth to representatives who knew how to handle their large amounts of land and gold. One of the first modern examples of a family office is J.P. Morgan in the 19th century, who founded the House of Morgan to manage his family assets. Other famous historical figures that contributed to the establishment of family offices include John D. Rockefeller and Sir Ernest Oppenheimer.

If you watched the television program 'Bonanza' in the 1960's–1970's you'd agree that all Ben Cart-

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wright, patriarch of the Ponderosa Ranch, had to do was make sure he and his sons made enough money to sustain the ranch from one year to the next. It was so simple then.

We've come a long way since then as today's client interacts with numerous professionals with many initials and titles after their names, each of whom have individual roles and goals in terms of working with their client. Rarely is there much coordination amongst the individual advisors serving their client. The primary function of the Family Office manager is to understand and to make certain that the family's numerous legal, financial, philanthropic, banking, risk management, as well as accounting, tax, real estate, wealth management, and asset protection needs are best served. Lastly, that they vet other advisors whose expertise is required and use that and all other info to create and execute one coordinated smoothly working plan that selects the best-in-class strategies and solutions to a family's problems and then applies them as needed

Alan Sasserath, CPA, of Sasserath & Co., also looks at the Family Office model from the perspective of collaboration between clients and professionals. Regarding the way his team works, Sasserath says, ''[t]he family office approach seeks to uncover a client's specific needs, understand all facets of their situation, and recommend the proper solution. Through this work, each member of the family office team will understand the history, story, and goals of each client. This is accomplished by creating an environment where one advisor not only knows what the other is doing, but actually worked with the other advisor to create the plan.''

Many professionals are beginning to work jointly with other like-minded and compatible advisors for the benefit of a number of joint clients. The vision of many Family Office managers is to build a community of advisors based on the specific needs of their clients. Typical services offered include cash flow, budgeting, insurance, investments, wealth transfer, estate planning, tax management, charitable gifting, asset protection, and several others. Of significant importance to many is also providing basic financial and legal guidance, as well as teaching the importance of philanthropic gifting and leadership skills to the next generation.

Underserved high net worth clients with assets between $10–20 million often feel they're not wealthy enough to employ a traditional single or multi-Family Office. Yet they all have similar significant personal and business estate planning issues that can benefit from a collective approach to solving their particular issues. These HNW clients can case the complexity and confusion of having different professionals who most often don't get the opportunity to work nor communicate with one another, do so for the benefit of the client. A Family Office setting minimizes the lost opportunities as a result of the client needing to attend several meetings at separate locations, at various times, rather than having all the necessary advisors and discussions take place under one physical or virtual roof with a manager specifically in charge of communicating and making certain that the clients short- and long-term objectives are being met and that the Family is protected as best as can be.

However, regardless of the physical location the premise remains the same, how can the family preserve as much of their wealth using all available legal means so that the maximum amount of assets can pass from one generation to the next and continue to sustain itself.

An independent experienced CFP can assist a client and their advisors to better understand various aspects of a client's plan that the attorney and accountant may not be familiar with themselves. This often occurs as a result of the lack of special product knowledge or strategy required. For example, everyone is familiar with the fact that life insurance provides a death benefit that benefits the client's/insured's beneficiaries, but few are familiar with the fact that life insurance can also be an ''Asset Class'' and as such provides a significant amount of tax-favored living benefits to the client/insured themselves. As a CFP practitioner for the last 35+ years, I can say with certainty that the vast majority of clients and their advisors are not familiar with the fact that their life insurance can be used to pay for their long-term care costs directly from the death benefit of a combo life insurance policy, tax free. That a life insurance policy can be used for its tax-deferred accumulation benefit and tax-free distribution aspects, if set up correctly, to supplement their retirement. Nor that a life insurance policy can be sold on the secondary market to an institutional investor, just like any other personal property as a ''Life Settlement,'' for significantly more than they would receive from the insurance company had they merely surrendered the policy for its stated cash surrender value.

Currently, over 40–45% of non-guaranteed life insurance policies are expiring prematurely as a result of sustained reduced interest rates, and neglect on the part of the owner who wasn't aware that they should have been increasing their premium paid to the insurance company in order to offset the insufficient lower interest crediting rates they earned.[1]

However, the most significant and costly error HNW and UHNW clients and advisors make in terms

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[1] Whitelaw and Montag, *The Life Insurance Policy Crisis* American Bar Association (2017).

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of their life insurance portfolio is that they're purchasing a retail product meant for the general public rather than one built on an institutional chassis that's designed for the HNW or UHNW client. Any client paying more than $250,000 annual premium for life insurance coverage, or a client able to deposit more than $2–3 million for a number of years, should consider a Private Placement Life Insurance (PPLI) policy.

An example of the distinct types of products and services offered the Family Office client is PPLI. This is an institutional type of a life insurance product whose primary objective is not to pay a death benefit to the beneficiaries. It's instead a financial tool intended to allow significant assets to grow and accumulate tax deferred indefinitely and then one day in the future, have the next generation receive a significantly larger death benefit than the premium paid, without their ever having to pay an income nor estate tax, assuming its ownership was set up correctly in an Irrevocable Life Insurance Trust (ILIT).

PPLI is a tool that a UHNW/HNW client can use to offset any Biden administration's increases to the marginal tax rate for the wealthy.

The SECURE Act[2] limited to 10 years the time most inherited IRA beneficiaries could defer their gains before they had to be distributed and taxed.[3] The question becomes where can the UHNW client shelter their assets from taxes while still enjoying a reasonable return. Although cash-value life insurance was long considered a place to accumulate assets on a tax -deferred basis by many life insurance agents, the expenses, and retail commissions were very high. That aside, their investments returns were very low and if one wanted to obtain a higher return their alternative was a retail variable life insurance policy driven by retail mutual funds, which charged additional fees. If that wasn't sufficient to dissuade a smart high net worth client from using a life insurance policy to accumulate assets, then the fact that an insured either had to pay a fee to borrow their own money or worse pay a surrender charge or a withdrawal penalty to take out their own money if they needed the funds for any other purposes.

They say that when one door closes a window may open well just about the time the SECURE Act came into being another significant change was made by way of the life insurance industry. I'm referring to §7702 which now allows a larger amount of accumulated cash value to grow and accumulate tax deferred indefinitely in a life insurance policy. This action has made PPLI even more efficient and attractive than ever. The reason being is that PPLI offers better pricing, and lower costs due to participating insureds having better health care access and those savings are passed on to the insured. In addition, significantly reduced institutional rather than retail commissions result in a larger cash value buildup in PPLI than in a retail life insurance policy. Lastly, PPLI unlike a retail product contains no age-related early withdrawal penalties, nor surrender charges for early withdrawals.

Such a strategy also offers access to institutional hedge funds as an investment vehicle rather than traditional retail mutual funds. The combination of hedge funds in a tax-deferred insurance company wrapper provides for very tax efficient investment returns. While the strategy offers significant benefits to the owner, it is costly in that it is a registered security and requires an experienced team consisting of an attorney, an accountant, and an independent insurance professional to properly structure and maintain such an arrangement. However, when properly implemented for the right client, the benefits far outweigh the initial costs.

An experienced CFP, can not only interface with the client, the CPA, wealth advisor, and the attorney but does so as a fiduciary, and based on their knowledge and experience they can discuss the role of private-placement life insurance coverage, and if they're life insurance licensed, they can place such a policy in force. It's more important now than ever to fully understand the best way to accumulate wealth in the most tax efficient manner using whatever legal financial tools make sense.

In summary the main benefits of a Family Office are that all of a client's needs are managed by a unified team that supports the client's vision and their best interests. Having a team in place saves time as well as money and relieves the client of trying to accumulate, manage, and preserve their wealth, then ultimately transfer their assets in the best possible manner to the next generation while keeping up with the day to day running of their business entities, personal investments and family matters.

Sometimes the answer to a person's financial needs is not to add new assets but to merely reposition and maximize the assets that are already being utilized. It's important to not only create and manage those assets, it's also important to consider whether some form of the collaborative Family Office could do a better job if their advisors collectively worked together to determine the best method to preserve those assets for the family, using all allowable planning and tax reduction strategies.

As the saying goes some people live to eat while others eat to live. Similarly, some people spend their time making money while others spend their money

[2] Pub. L. No. 116-94.

[3] §401(a)(9). All section references herein are to the Internal Revenue Code of 1986, as amended (the Code), or the Treasury regulations promulgated thereunder, unless otherwise indicated.

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to make more time for themselves and their family. Such is the case for a client utilizing a collaborative Family Office relationship.

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