

# GUIDING ULTRA-HIGH NET WORTH FAMILIES IN AN AGE OF COMPLEXITY

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This article explores the roles and responsibilities of a family office in guiding their clients through investment, planning, and generational transition of family wealth.

In a global multi-family office, there are myriad considerations to juggle when working with ultra-high net worth families—among them financial, economic, legal, tax, and family dynamics. To tackle them holistically and effectively, assembling and managing the right team of experts is necessary. The team must blend the talents of an investment strategist, financial planner, tax attorney, mediator, and sometimes, even therapist. It can be a difficult balancing act, but when the right team comes together, they often become part of the family's most trusted insiders. This trust represents a significant commitment on our part to the families we work with and who place their confidence in our counsel, judgment and expertise.

The role of a family office seems relatively straightforward. Safeguard, preserve, and grow the immense wealth of ultra-high net worth (UHNW) families to pass along from generation to generation, while also helping them navigate day-to-day challenges. But the only thing that is simple is the goal—the rest is immensely complicated. Every family situation is unique, and while there are commonalities among the issues, every situation is particular to the individual family and their specific needs.

Assets represent perhaps the most elementary part of the wealth management effort. While you need top tier thinking and superior investment professionals on the team, that is table stakes. Our involvement with families encompasses so much more and entails balancing key considerations around life insurance needs, business continuation plans, estate and trust plans, along with providing counsel on complicated legal entanglements to produce the best outcome.

The toughest challenges often are not found on a balance sheet or within the tax code, but rather grounded in the psychology

of families, their relationships, and the individuals who comprise those families. The job of a family office is to help navigate family dynamics—understanding and then advising on all aspects of a family's planning and investment goals with multi-generational transition becoming even more critical for families with significant wealth.

## THE ART OF HIGH-STAKES CONVERSATIONS

Generational transition is easy in concept, but often far more challenging in practice. Family dynamics can be tricky, and one of the most difficult things for families is communicating about transitioning their wealth. In the best situations, the conversations are hard; financial discussions can often be delicate, and talking about death or illness is extremely sensitive. In those instances where families have disagreements, or perhaps don't even communicate with one another, the challenges can sometimes seem insurmountable.

This is where perspective is key—being able to accurately assess a family situation and put the right team in place with the right tools to help them manage conversations is just the first step. From there it's a combination of education, discussion, planning, and finally the implementation of a well thought out plan that allows for a successful continuation of the current generation's goals along with a solid transition plan for wealth to be passed to the next generation. Families often look to a family office to play a "quarterback" role in concert with many other advisors, helping to successfully coordinate and implement a plan that will provide them current and future peace of mind.

How does this happen? Families often rely on their family office advisor to connect with the next generation and help them understand their role as stewards of the family wealth. It is important to nurture and grow a foundation of candor and trust between client and advisor to guide families in this process. Where necessary, an advisor must identify additional support resources in the form of wealth psychologists and family communication and dynamics experts. Building this trusting and supportive relationship allows the family office to guide families through wealth transitions, including the monetization of hard assets into liquid portfolios; business valuation analyses to ensure the long-term health and viability of the family enterprise; and multi-generational commitment to grow and manage family foundations, along with many other wealth transfer considerations depending on the unique nature of the family's wealth and ultimate goals. The longevity of our family relationships often span decades, serving as the ultimate sign of success.

## SPECIAL SITUATION EXPERTISE

While the goal is always an amicable and constructive conversation, strained family dynamics mean that it is sometimes not possible. There are situations where significant disagreements or outright acrimony prevent a smooth transition. These situations require a level of expertise that is not typical with all family office providers. We always attempt to help mediate family challenges as a first step; however, we will introduce litigation—or perhaps more accurately, the threat of litigation—as a powerful weapon, even though it is fraught with potential financial and emotional consequences, in

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order to help families find an outcome that allows them a path forward.

The first step almost always is a close review of legal documents. In my experience, rarely are trusts or other vehicles written in ways that provide no legal flexibility. Staying on top of developments in case law and relevant areas is essential. Time on target is likewise key; over time, you become familiar with common mistakes in how these legal documents have been drawn up.

Pursuing litigation is not something that can be kept separate from other real-world considerations. Legal costs are a significant factor and, as they pile up during litigation, that has often proven to be the catalyst that leads to resolution. There is also the public relations angle. Litigation is public and, consequently, PR is an important tool in resolving family disputes. As heated as family dynamics might get, many are reluctant for family drama to spill over into the public eye. When it does, negative stories can prove embarrassing enough to prompt all sides to recognize that these discussions are best handled discreetly.

### MULTI-GENERATIONAL PLANNING WITH FAMILY DYNAMICS IN MIND

While challenging situations facing families with immense wealth can arise anytime, the more typical focus is on multi-generational planning, along with helping clients meet their current goals. This demands both a discerning thought process, along with diving into the details. The issues at play are consequential, providing assistance with specific client needs while advising on things like life insurance needs, financial considerations around pressing income requirements, charitable giving, trust and estate plans, multiple home purchases, complex private investment plans, and numerous investment decisions for multiple portfolios. The needs are often complex and varied, but educating clients, and helping them navigate these situations, is one of the most essential responsibilities of a family office. It allows clients to feel—and be—in control of their wealth and their future.

### STAYING ONE STEP AHEAD

Much of the work of a family office depends on being attuned to what is just around the corner—trying to make certain that clients are informed and educated before they

need to act. This encompasses investment strategies, wealth management, tax issues, trust and estate planning, and responsibility for passing wealth from one generation to the next. This last issue, particularly, is something that is of paramount importance to client families.

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In the role of family advisor, we manage clients' asset allocation strategies alongside and in close coordination with tax and other planning aspects of the family's legal entities and structures. This allows for a precise level of planning that enables families to take advantage of the appropriate estate and trust vehicles; doing so often helps to minimize the tax liability their estate will bear and helps ensure their assets pass in the way they desire.

### Urgent planning is sometime required.

Unfortunately, sometimes planning for the transfer of wealth between generations must take place more urgently than expected. Sadly, one recent example of the need for urgent planning occurred when a client in the prime of life was diagnosed with a terminal illness. The client wanted to take the necessary steps to protect the financial future of his wife and young children. As such, we undertook a comprehensive review of his current estate plan and portfolios, and recommended planning strategies to reduce the taxable estate at his passing.

Due in part to his relative youth, the client had not fully utilized his federal estate tax exemption. In collaboration with his estate planning attorney and tax advisor, we reviewed his gift tax returns, estate plan, and asset allocation, recommending he consider creating and funding a Spousal Lifetime Access Trust (SLAT). We determined that this approach would enable

the client to utilize his lifetime estate and gift tax exemption (which at the time was over \$11 million) before the exemption was expected to be reduced on January 1, 2026.

A SLAT is an irrevocable trust where one spouse (the grantor spouse) creates and funds the trust for the benefit of the other spouse (the beneficiary spouse) and typically their descendants. We further identified and recommended the appropriate assets for contribution to the SLAT, which enabled the grantor spouse to remove the value of those assets from his taxable estate at fair market value, thereby avoiding estate tax inclusion on the future appreciation of the assets.

By providing sound counsel throughout this difficult period, we were able to foster trust and build a relationship where we could help our client secure the future financial well-being of his family and maximize the value of the assets they would retain.

### OUR ROLE AS A TRUSTED ADVISOR

One example that highlights some of the research and planning done as a trusted family advisor relates to a fairly significant legislative development in the estate planning world: the sunset of the 2017 Tax Cuts and Jobs Act. This development will reduce the allowable estate tax exemption and, as this legislation approaches its end on January 1, 2026, the potential ramifications to clients with significant wealth could be material.

In advance of this deadline, it is important to coordinate with families' attorneys to consider strategic estate planning that will maximize current tax benefits and prepare for potential reductions in estate and gift tax exemptions. In addition to SLATs, families can successfully adapt to changing tax laws by considering techniques including Purpose Trusts, Intentionally Defective Grantor Trusts, Grantor Retained Annuity Trusts, Qualified Personal Residence Trusts, and Charitable Remainder Trusts. Each approach naturally has positives and negatives depending on family circumstances, age, location, and more.

By working closely with families to ensure that all the potential ramifications of the sunset of the Tax Cut and Jobs Act are addressed and that clients are informed and positioned appropriately, the potential negative consequences can be minimized.

Even if it is extended, the planning and care taken to evaluate all the possible avenues clients could consider will be well worth it and allows them a greater level of insight into the vehicles available to them to help protect and preserve their wealth.

### AN EXTENSION OF THE FAMILY

Families are the core of this business. As a multi-family office, the moniker "family" is in the description of who we are and what we do. When advising families, the stakes are not just higher, but also more personal.

The goal of a family office is to help UHNW families in a multitude of ways. The specifics of managing significant family wealth, meeting individual and collective goals, and successfully transitioning wealth to future generations is not an easy task. There is an art and a science to successful chemistry in managing a multi-family office and assembling the right team. There must be genuine trust, confidence and candor.

Our goal is to partner with families in a way that allows us to not only "earn a seat

at the table," but to also maintain that trusted role with the family for years or, in some cases, decades. By bringing the highest level of investment skill, special situation expertise, and planning experience to the table, a family office can help families navigate the day-to-day management of their wealth while also helping them meet the challenges of building, growing, and preserving what they have amassed. If done successfully, our work helps not just to plan for the future, but also to secure a legacy for our clients. ■