FAMILY WEALTHREPORT

EXCLUSIVE INTERVIEW: Where Theory Meets Practice In Family Offices

Joe Reilly

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Family office consultant Joe Reilly interviews Fredda Herz Brown, principal and senior consultant at Relative Solutions, about where theory meets practice and how a family should think about their family office.

Family Wealth Report does not necessarily share the views expressed below, but is delighted to publish them, and welcomes reader feedback.

Joe Reilly: Your latest book *The Family Wealth Sustainability Toolkit* encourages thoughtful, long-term development for families. I'm curious where theory meets practice for you. When you work with a wealthy family, how much is your own experience and how much is informed by theory?

Fredda Herz Brown: Interesting question. Hard for me to tell the difference between them at this point. I always think that I work well iteratively, developing new theory from practice and then back again. There are currently a lot of books being written with regard to the human capital, spiritual capital and intellectual aspects of wealth while I think fewer articles. I think it is good that thought and effort are being focused in these areas. I am not sure what it means, but a colleague suggested that we are seeing books not as theory generation but as a form of practice branding. Maybe, but they are also specific to subject areas that are evolving in work with families of wealth. Lately I am increasingly intrigued by the questions regarding the long-term implications of such tremendous wealth on the geopolitical scene as well as on a future generation. While this might be related to my life stage, I increasingly find families with whom I work thinking about how their estate planning and giving might impact their communities and the world at large. Some are beginning to lead family discussions regarding the impact of wealth on the local and larger world and on the growing economic inequality in the world.

Joe Reilly: Do you think wealth management firms should have a full-time family dynamics person? How large does a firm have to be before this becomes necessary?

Fredda Herz Brown: I do not think “necessary” is defined by the size of the firm but the commitment to a broader focus and the belief that building the other areas of family wealth are intrinsic to building financial wealth. I realize that others would answer that there is a point at which the numbers (AuM) make this feasible from a business model perspective, and that may be true. However, perhaps there are other ways to think about how to increase the fit between a philosophical model and a business model. Are there other ways to provide resources like this to clients – for instance maybe profits get allocated in a different way? Maybe we need to invest more to meet these needs or have clients do so? Or perhaps there is an "on hand consultant" with a tool kit to help assess the family needs and dynamics. It is always important from my perspective to have all of the staff who deal directly with clients trained and educated to understand a family diagram, collect useful data and recognize the orange and red flags of family dynamics challenges. Some families do fine with knowledge and mission vision work, others need more direct help in working through a process. A wealth management firm need only invest in the first and have outside advisors develop the second. It may help keep their business cleaner and less worrisome.

Joe Reilly: Do you think inherited wealth destroys motivation?

Fredda Herz Brown: I think there is always a tendency to have wealth be more destructive to a developing person when it is “unearned” - that is less coming from something the individual did to get the money.

However, that being said, my experience is that the more inherited wealth is viewed as a resource to enhance a life that you can provide for yourself, the better it is, especially in the young adult years. I try to get young people and their families to look at what they actively can do to develop competencies and capabilities. Money, looks and IQ are things you inherit but their full merit comes in what you do with them. As one of my clients told his daughters: “as you never wanted to be known just for how pretty you are, well you probably won’t want to be known for how wealthy you are either.” No one wants to be measured by them. And most families I know do not want their kids to be left without a way to take care of themselves financially without their inheritance. Some are motivated more when the hurdle is higher financially. It is pretty simple in some way; we all need something to work for or on. Money should not define us anymore than the other inheritances.

Joe Reilly: Can you teach someone to be a good beneficiary?

Fredda Herz Brown: To me this question has to do with can you teach good values and attitudes toward people, relationships and money. I believe it is worth ferreting out one’s relationship to money and what messages you give or want to communicate about it. Thinking about the meaning of beneficiary and the origin of the word is often helpful in getting families to think about what they want to teach to their younger generation about what they can anticipate as a beneficiary and how they can work with a trustee. The term itself relates to benefiting from something set up by someone else for you. I think a very complicated relationship exists between the grantor who did own it and the trustees who are the decision makers and further defining the decision making rights and responsibilities of those that are to be benefited. There are several of my colleagues who are writing on this subject. In sum, I think you have to define it before you can teach someone how to become it.

Joe Reilly: Your book *Reweaving the Family Tapestry* took on the growing issues of divorce and remarriage, as well as non-traditional families back in the early 90s. What are the most challenging issues for families today?

Fredda Herz Brown: The world has grown much more complex and rapid moving since I wrote that book and the context of my work has also shifted a bit. I do think that one of the biggest challenges for any family now is how to ready themselves and the next generation for dealing with such complexity and change. That means many families I work with are thinking about the issues of resilience, change, stress and multi-purpose education and experience. They are beginning to think about the kind of mindset necessary to handle the challenges of today and tomorrow.

Contextually, my work has shifted more toward high net worth families where they are not worrying about whether there is enough money but about how to deal with raising kids in an environment where there is abundant financial resources. Yet as my daughter recently reminded me, money does not shield parents from assisting their children in determining "need versus want." Thus some may worry about giving their kids too much, especially those parents who were raised in middle or working class families and are aware of the costs and benefits of not having to worry or think about money needs. However, my experience is that wealthy families struggle to have money not be used as the sole definition of wealth (and selfhood) by their children. Rather they are trying to define success or prosperity on the basis of what you do with the opportunities that you have.

At the same time they are striving to have their kids derive their self worth internally, the reality is that many of these families also strive to pass on their financial resources to their children and future generations. This process of wealth transfer can complicate the message and expectations kids develop with regard to their ability to take care of themselves. When you start out life with a nest egg that others often struggle for throughout their lives, how does that impact your motivation or ambition to develop that in themselves? I think you can see why families are increasingly anxious that their children understand what it takes to make, preserve and grow money. Making your own way financially is more important. Increasingly families with whom I work and meet are dealing with the proverb "With great wealth comes great responsibility and great challenges."

Complicating all of this is our culture's ambivalent relationship to wealth - we admire it, think we want it and yet tend to treat those that have it in a fairly contemptuous way, especially those that inherit it. You get more "points" if you have made it, especially made it on your own. While research suggests after a certain level money and happiness are not connected, the typical, everyday view still seems to be that money as an "enhancer of everything good" can solve all problems. My experience suggests that it does not "solve" anything but also may enhance those things or areas are not going well.

In the US, trusts seem to be the method of choice in terms of the way wealthy families can pass on their wealth. Notably when I first began in this work only the very, very wealthy had trusts and now everyone has or aspires to have at least one. I often think that in the future the resources of the world will be held in trusts and all work philanthropically or for the "public" good will be family foundation-based. Families have lots of reasons for using trusts in estate planning, but I still see it primarily as originating in a way to delay the tax burden of wealth rather than as a method to delay the outright passage of wealth to the next generation. However, if the primary reason creates the secondary effect then I would say that is a positive thing. It gives families the necessary time to prepare themselves and their kids for how to handle the potential impact of wealth in their lives and on their psyches.

Joe Reilly: How should a family think about using their family office, in terms of the family itself?

Fredda Herz Brown: Families could easily think of their family offices for dealing with some or all of the four kinds of family wealth: financial, intellectual, emotional and spiritual. Another way I like to think about it is that families with shared assets have five areas they need to manage, and any or all of those areas can be the basis of a family office: investments (liquid and private equity); companies, including their original or legacy company; family education and activities; family real estate and philanthropy. I have seen some families start a family office when they still had their legacy company and use the office for diversification of assets and human capital investments. The other big question for families is how the office will be governed and that in part is determined by how they want to use it. Most family offices start for one reason and in the next generation change to meet changing family needs. It is rare that it serves a static purpose.