

Lessons From the Family Office

October 13, 2010

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Where we're going

- Using a Family Office:
Family Offices Defined
- Lessons From the Family Office:
UHNW Best Practices



Where we're going

Using a Family Office: Family Offices Defined



Family Offices Defined

A Family Office is an organization dedicated to managing the personal fortunes and lives of families with exceptional wealth.



Family Offices Defined

The Family Office represents a centre of influence and stability to help wealthy families ensure the preservation and growth of their financial assets and family heritage.

History of Family Offices

China (1600 BC):

Servants (buried with family)

Ancient Rome:

major domus (head of house)

Middle Ages:

major-domo (chief steward)

History of Family Offices

European history dates family office services back more than 300 years; generally in the form of private banks.

Europe:
Rothschilds (1700s)

History of Family Offices

Original U.S. family offices were created by wealthy merchants in the 19th century who hired trusted advisors to oversee their wealth while they were traveling.

North America:

John D. Rockefeller office: Rockefeller & Co. (1882)



Family Offices Defined

The Family Office represents high value wealth management by close advisors based on a relationship characterized by intimate knowledge and trust.

Family Offices Defined

Family Office Advisory

- Family Financial Philosophy
- Family Governance Development
- Leadership Succession Planning
- Family Education
- Fostering Entrepreneurship
- Fostering Philanthropy
- Family Conflict Mediation
- Family Goal Alignment

Wealth Advisory

- Tax and Estate Planning
- Financial Planning
- Insurance Planning
- Succession Planning
- Business Consulting
- Accounting and Bookkeeping
- Tax Preparation
- Budgeting and Bill Paying

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Investment Advisory

- Investment policy development
- Asset Allocation
- Manager Search and Selection
- Fee Negotiation
- Performance Measurement
- Consolidated Reporting
- Custody and Settlement
- Income Distributions

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Complexity
of Service
Offering



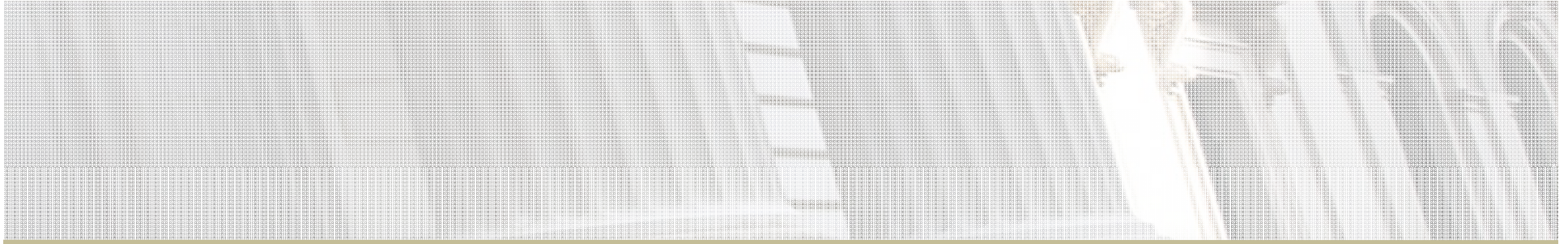
Family Offices Defined

- Types of Family Offices:
 - Single Family Office
 - Multiple Family Office



Family Offices Defined

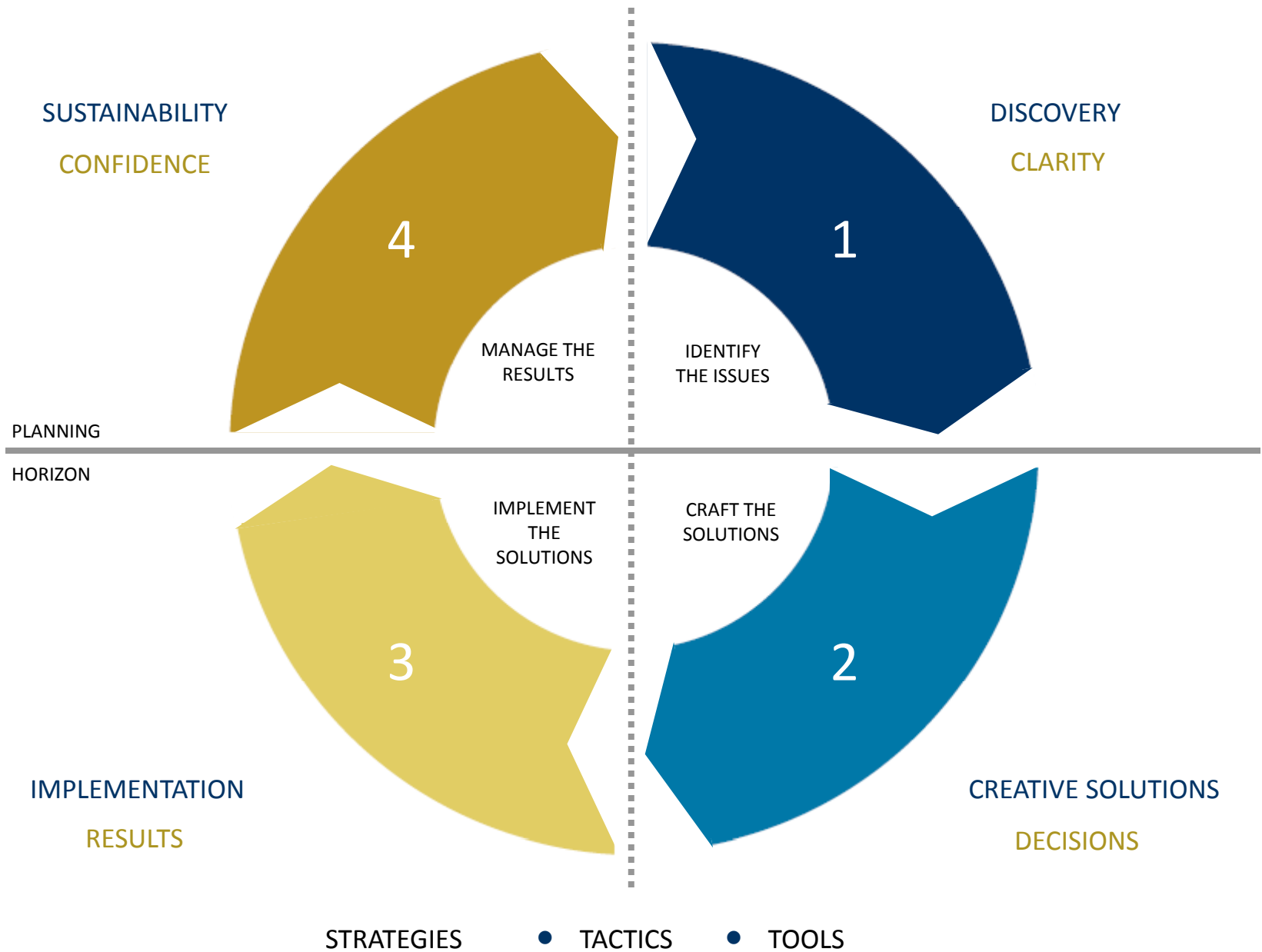
Lessons From the Family Office: UHNW Best Practices



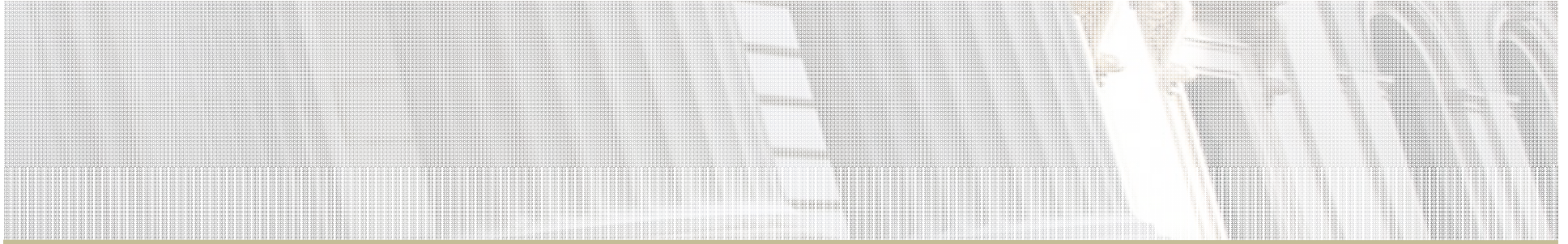
Lesson 1:

Planning must be values-based
and vision-focused

MISSION • VISION • VALUES • GOALS

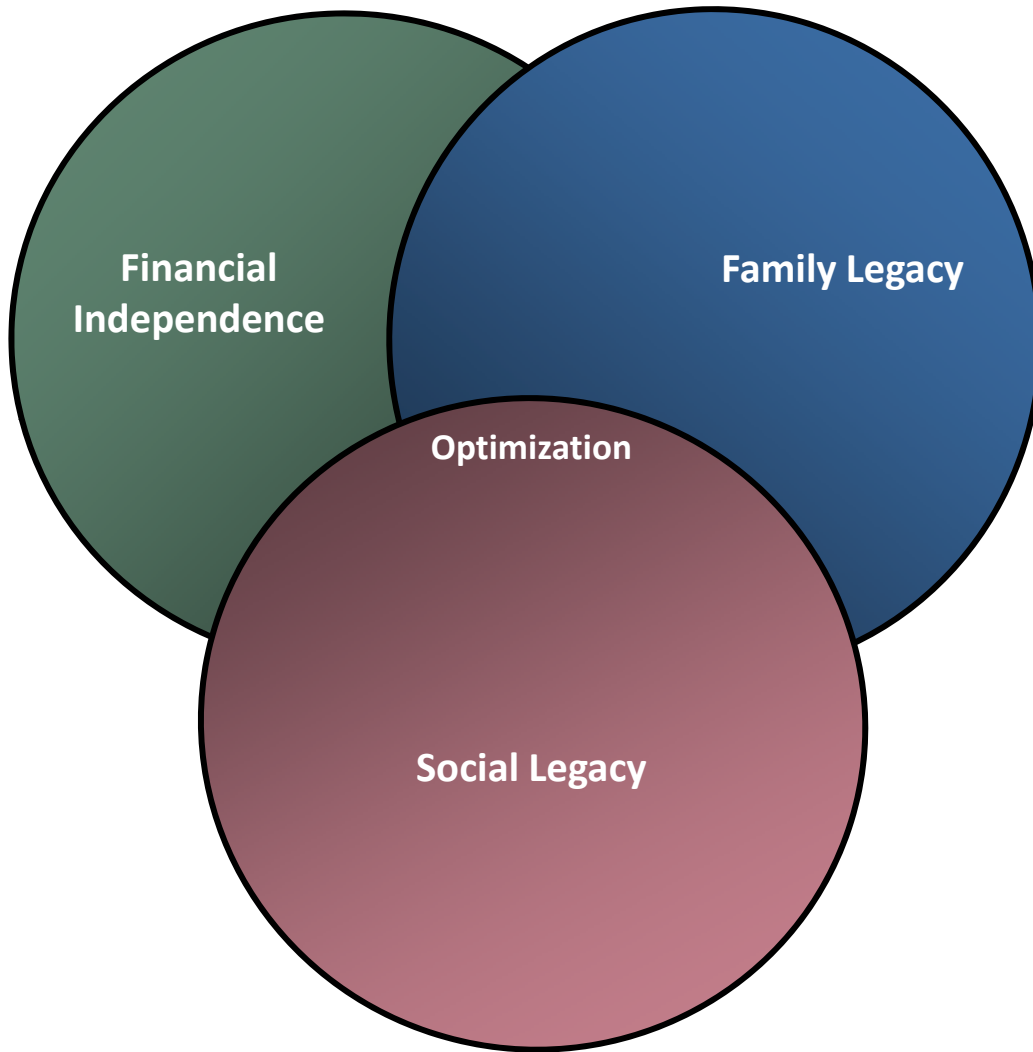


STRATEGIES • TACTICS • TOOLS



Lesson 2:

Preserving and growing wealth
is about understanding
financial realms

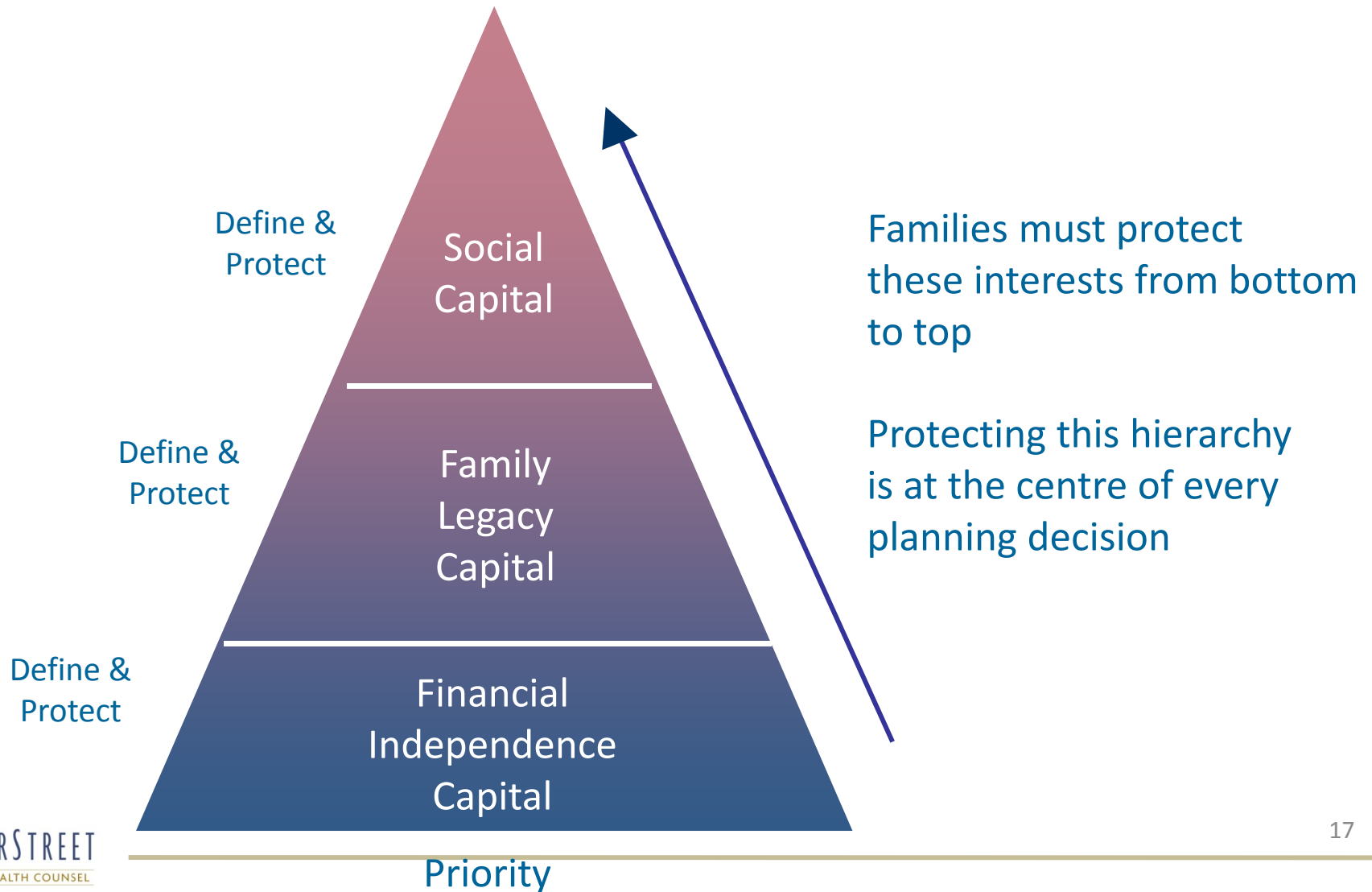


Family's approach must provide integration among three key financial realms

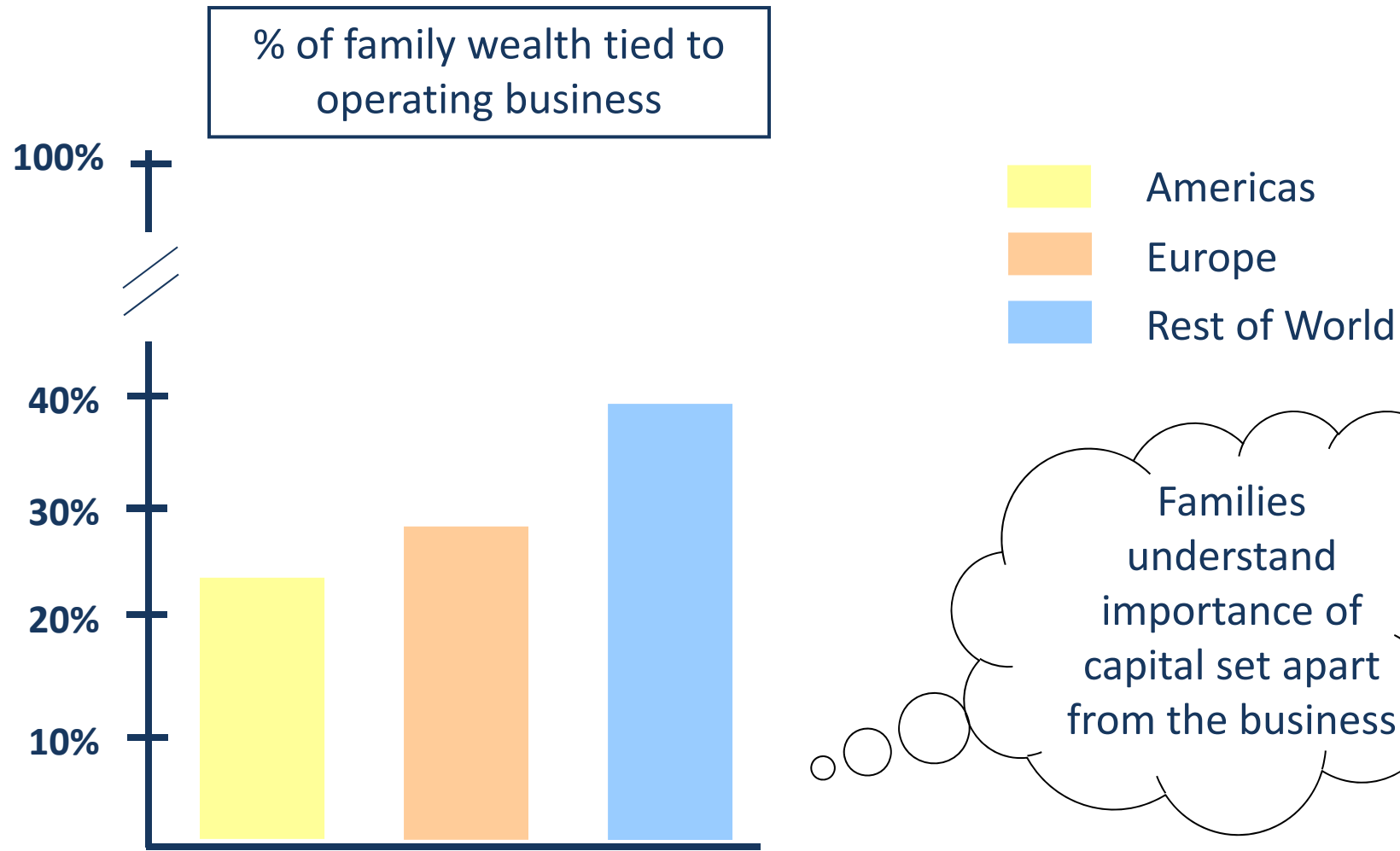
The optimal solution requires clarity regarding outcome in all three realms

Integration & Optimization

Understanding Financial Realms



Understanding Financial Realms



Source: Wharton Business School 2008

Understanding Financial Realms

Families have capital outside of the business

Asset Allocation By Wealth Level

	Americas Billionaires	Europe Billionaires	Americas Millionaires	Europe Millionaires
Equities	47%	25%	45%	30%
Fixed Income	16%	15%	15%	17%
Hedge Funds	20%	12%	12%	13%
Private Equity Funds	9%	12%	9%	12%
Real Estate	4%	11%	10%	18%
Other Tangible	3%	4%	4%	3%
Principal Investment	0%	20%	5%	6%
Other Stores of Value	1%	2%	1%	2%



Lesson 3:

Tax Alpha is critical to
preserving and growing
wealth.

Tax Alpha

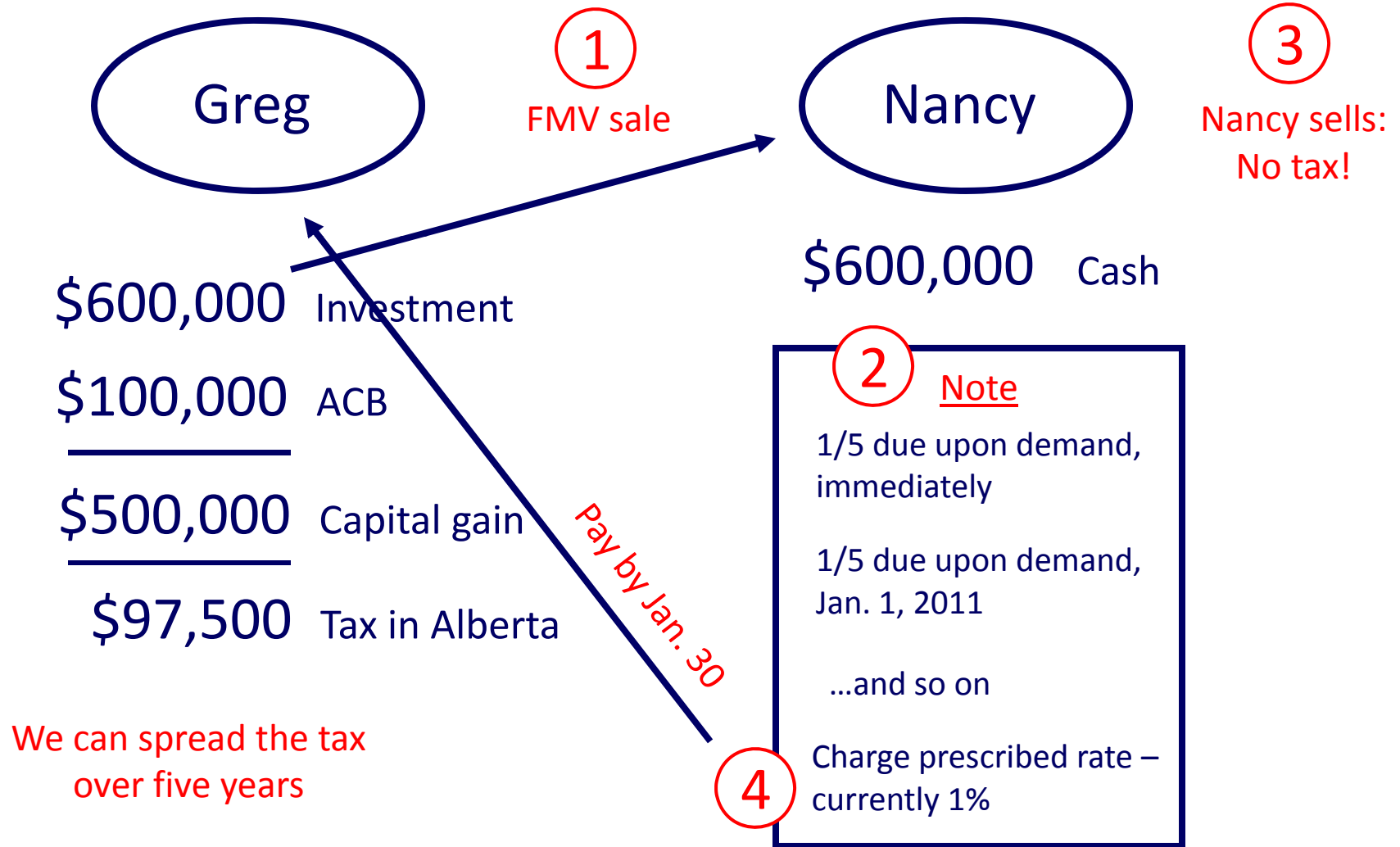
Alpha is the value added by money managers over and above returns provided by the market itself.

Tax Alpha is the additional after-tax return generated through effective tax structuring.

Tax Alpha: Capital Gains Reserve

- Can defer capital gain over a period as long as five years
- Must collect sale proceeds over more than one year to claim a reserve under 40(1)(a)
- Can sell to:
 - Child
 - Spouse or common-law partner
 - Caution if selling to corporation

Claim a CG Reserve



Tax Alpha: Capital Gains Reserve

- Additional Idea:
 - \$600,000 could remain invested in Nancy's name to split income
 - Will save tax if she has lower marginal tax rate than Greg
 - No attribution due to prescribed interest rate charged on note

Tax Alpha: Capital Gains Reserve

- What if Greg dies within five years?
 - Still gets reserve in year of death [ITA 72(2)]
 - Transferee includes amounts in income over balance of the five years
 - If leave note to surviving spouse: cancelled and income inclusion in year of spouse's death
 - If leave note to children: kids include amounts in income over balance of five years
 - Bottom line: Opportunity to make sale prior to death to defer tax on capital gain

Tax Alpha: Capital Loss Transfer

- Transferring Capital Losses
 - One spouse has capital losses, no gains
 - Other spouse has capital gain, no losses
 - Can transfer unrealized losses to spouse

Tax Alpha: Capital Loss Transfer

- Anne owns Publico shares. ACB \$50,000. FMV \$10,000.
- Husband Hal reported capital gains of \$40,000 in 2009.
- Let's transfer Anne's losses to Hal.
- Hal can carry losses back to 2009 and recover taxes paid.

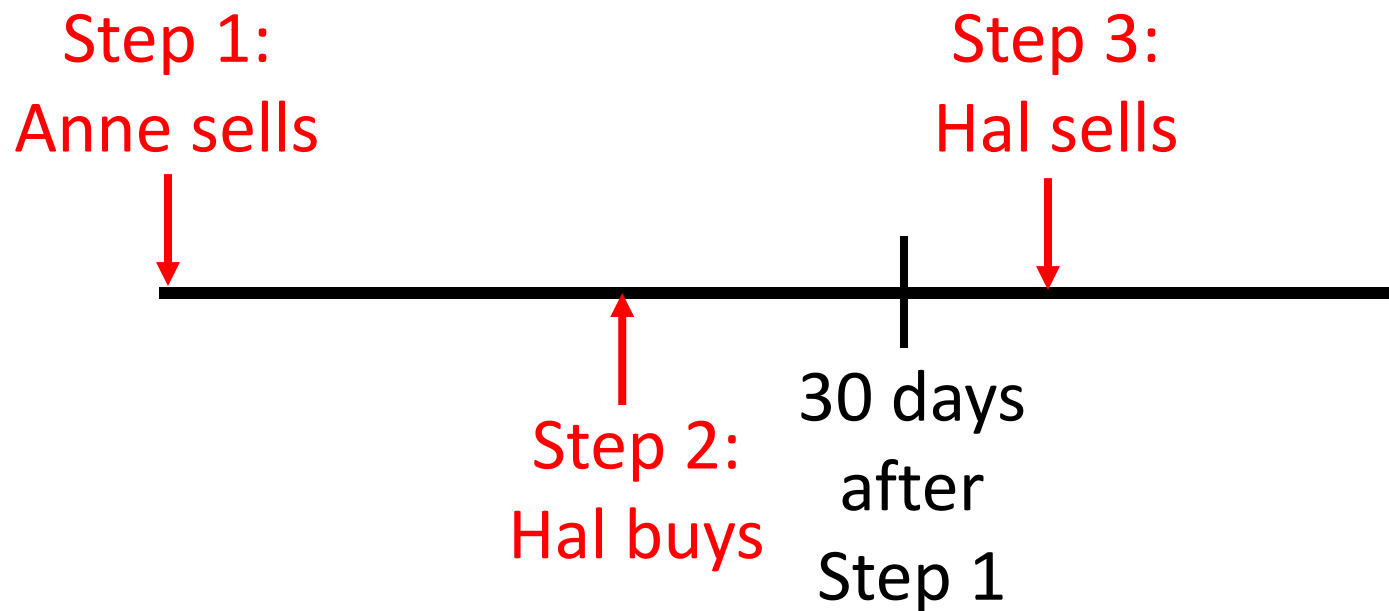
Tax Alpha: Capital Loss Transfer

3 STEPS

- 1 Anne sells Publico shares. Triggers \$40,000 capital loss on the sale.
- 2 Hal buys Publico shares for FMV of \$10,000; superficial loss; Anne's loss denied; added to ACB of Hal's shares.
- 3 Hal sells Publico shares for FMV of \$10,000; ACB is \$50,000; capital loss of \$40,000 realized.

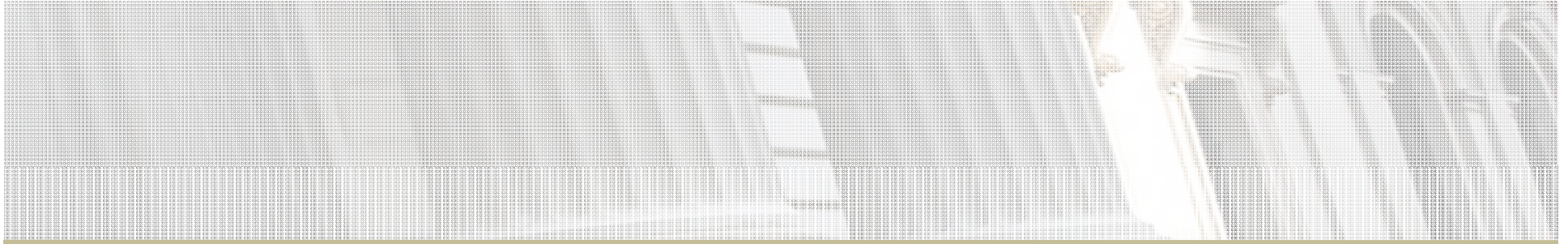
Tax Alpha: Capital Loss Transfer

- Time line is important



Tax Alpha: Capital Loss Transfer

- Can also transfer capital losses to a corporation you own
 - But not from the corporation to you
 - Best to sell on open market or directly to the corp.
- Can do a direct transfer between spouses instead of selling on the open market
 - Must file a special election to transfer at Fair Market Value vs. ACB (elect out of 73(1) of ITA)



Lesson 3:

Conflict-free open architecture
is absolutely critical.



Conflict-Free Open Architecture

Conflict-free open architecture is the ability to access the very best solutions for the family, wherever in the world they may be, without any bias driven by advisor selfishness.

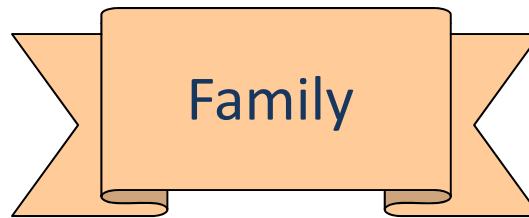
Conflict-Free Open Architecture

Lack of open architecture can be caused by...



Advisors can only offer a limited range of solutions

Advisors don't have access to the best expertise



Family's limited resources restrict access to solutions



Regulators deny access to solutions or make solutions unattractive

Conflict-Free Open Architecture

Conflicts of interest can arise when...

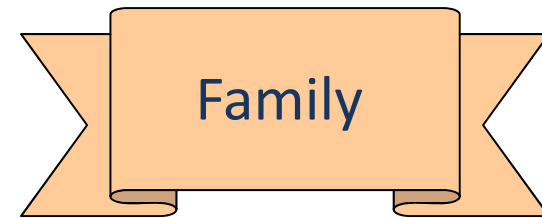


Advisor is paid on the sale of products

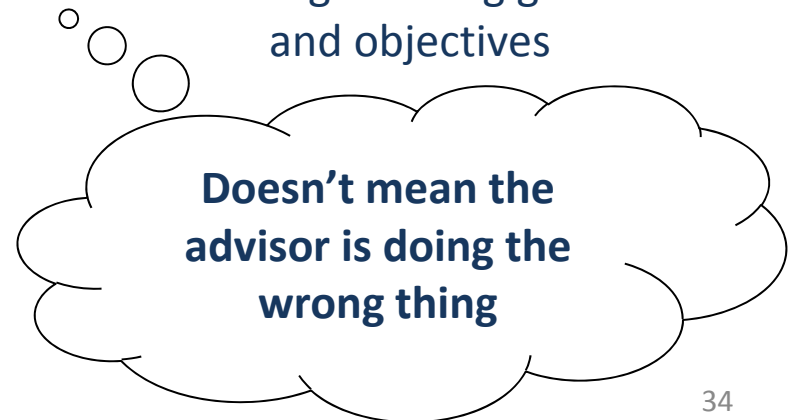
Advisor compensation varies by product

Advisor is paid on certain assets and not others

Advisor receives referral fees



Family members having differing goals and objectives



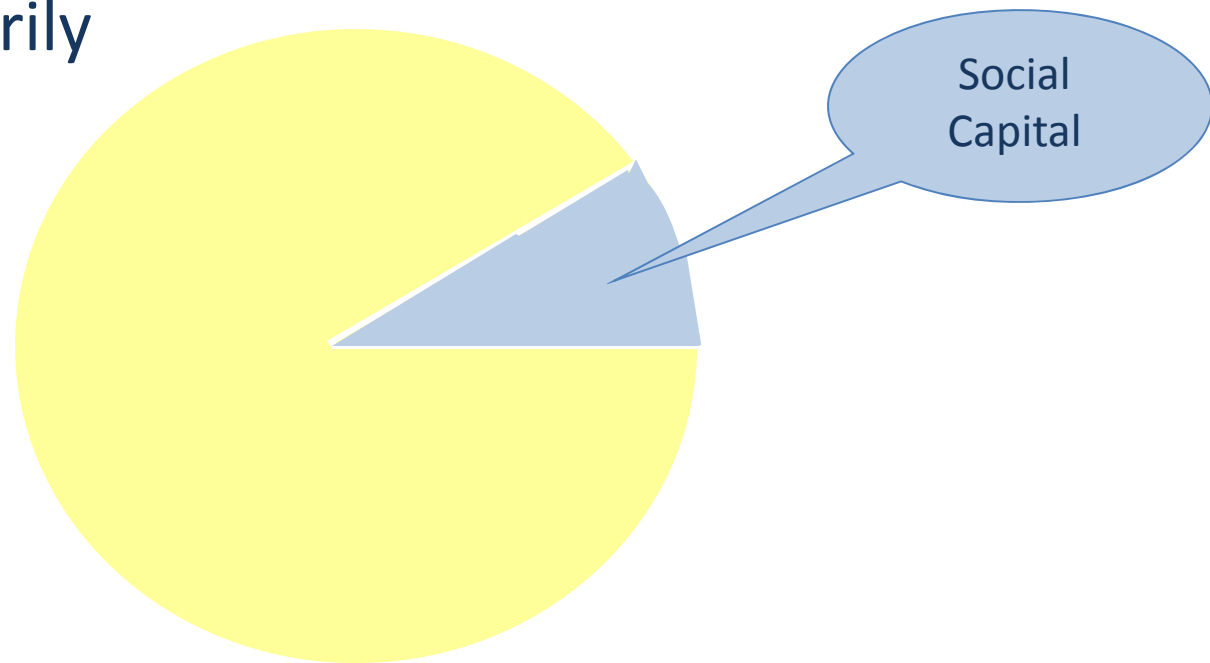


Lesson 4:
Strategic philanthropy is
important to family harmony.

Self Directed Social Capital

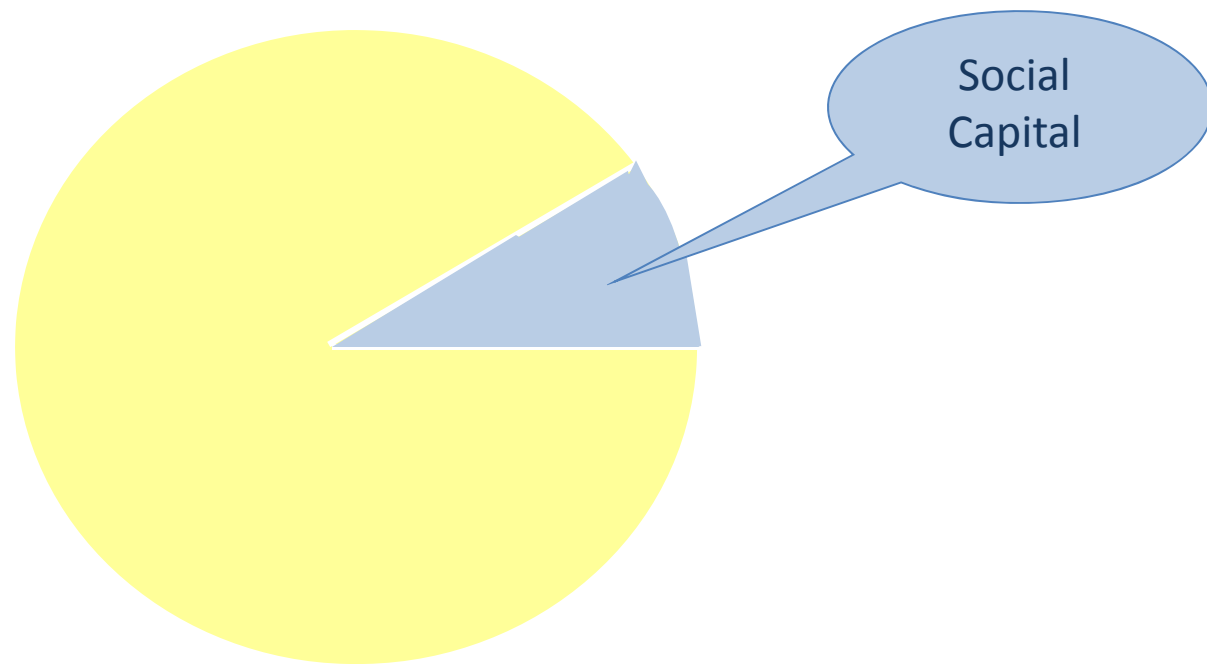
Families have a choice in how they support society:

- Voluntarily
- Involuntarily



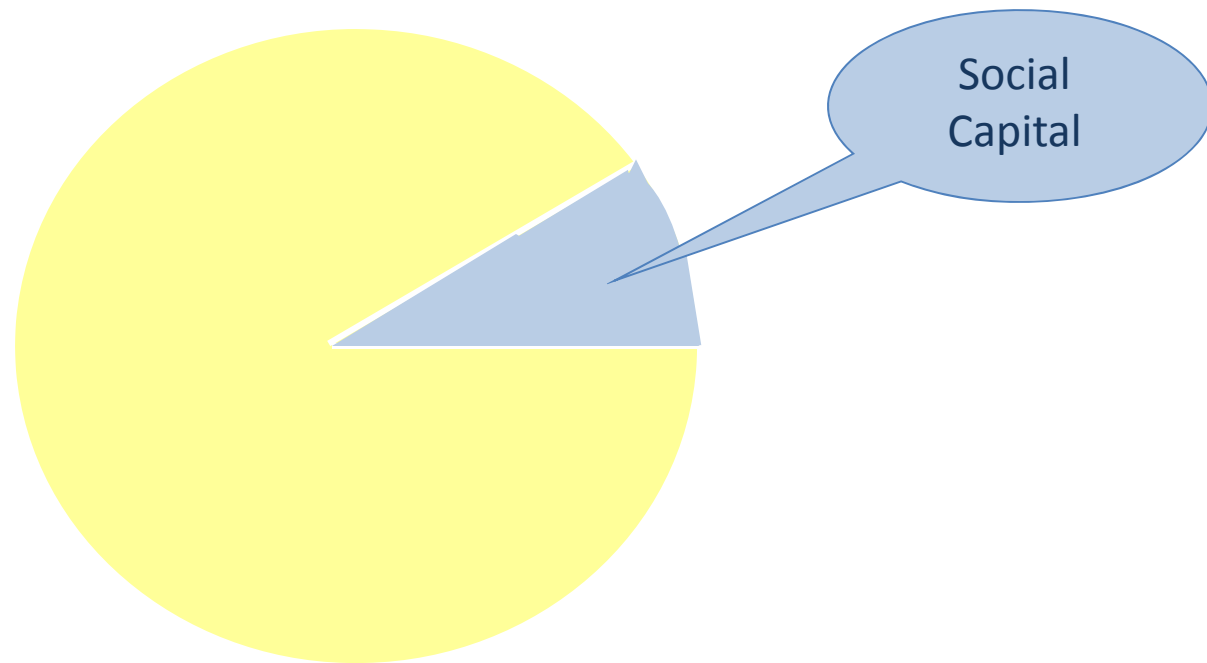
Self Directed Social Capital

Most Canadians use the default method to donate social capital: Involuntary giving



Self Directed Social Capital

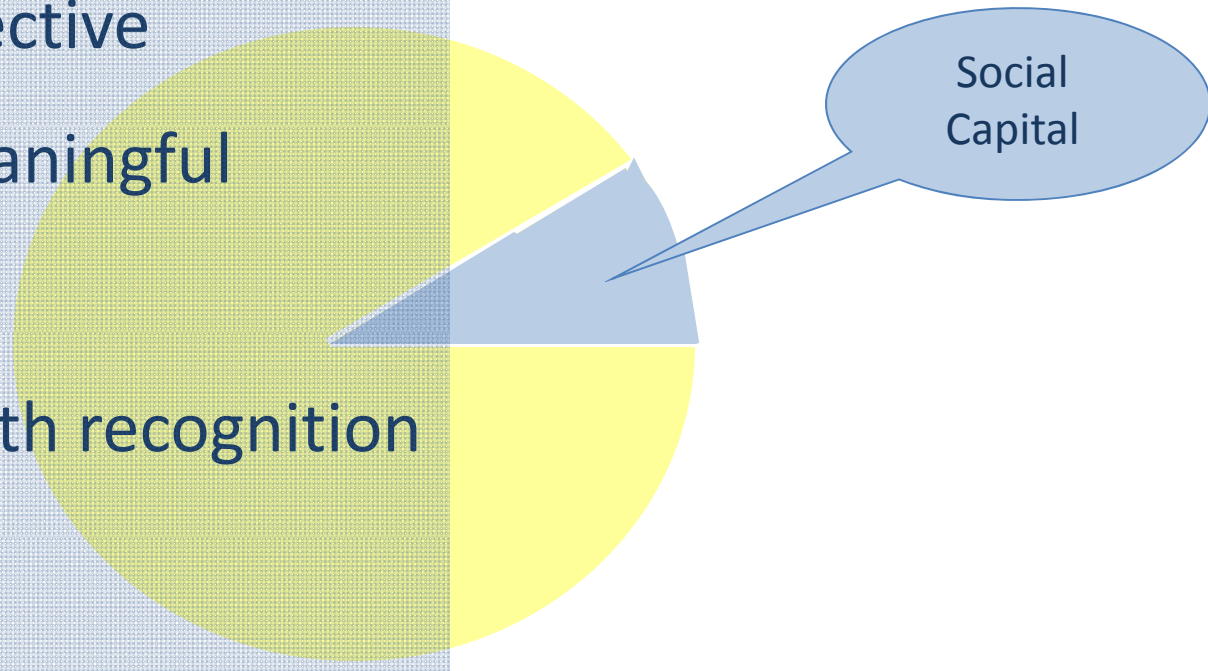
Some families recognize that voluntary giving can be thought of as “self-directing” their social capital



Self Directed Social Capital

- Self-directed giving has advantages:

- more efficient
- more effective
- more meaningful
- timely
- comes with recognition

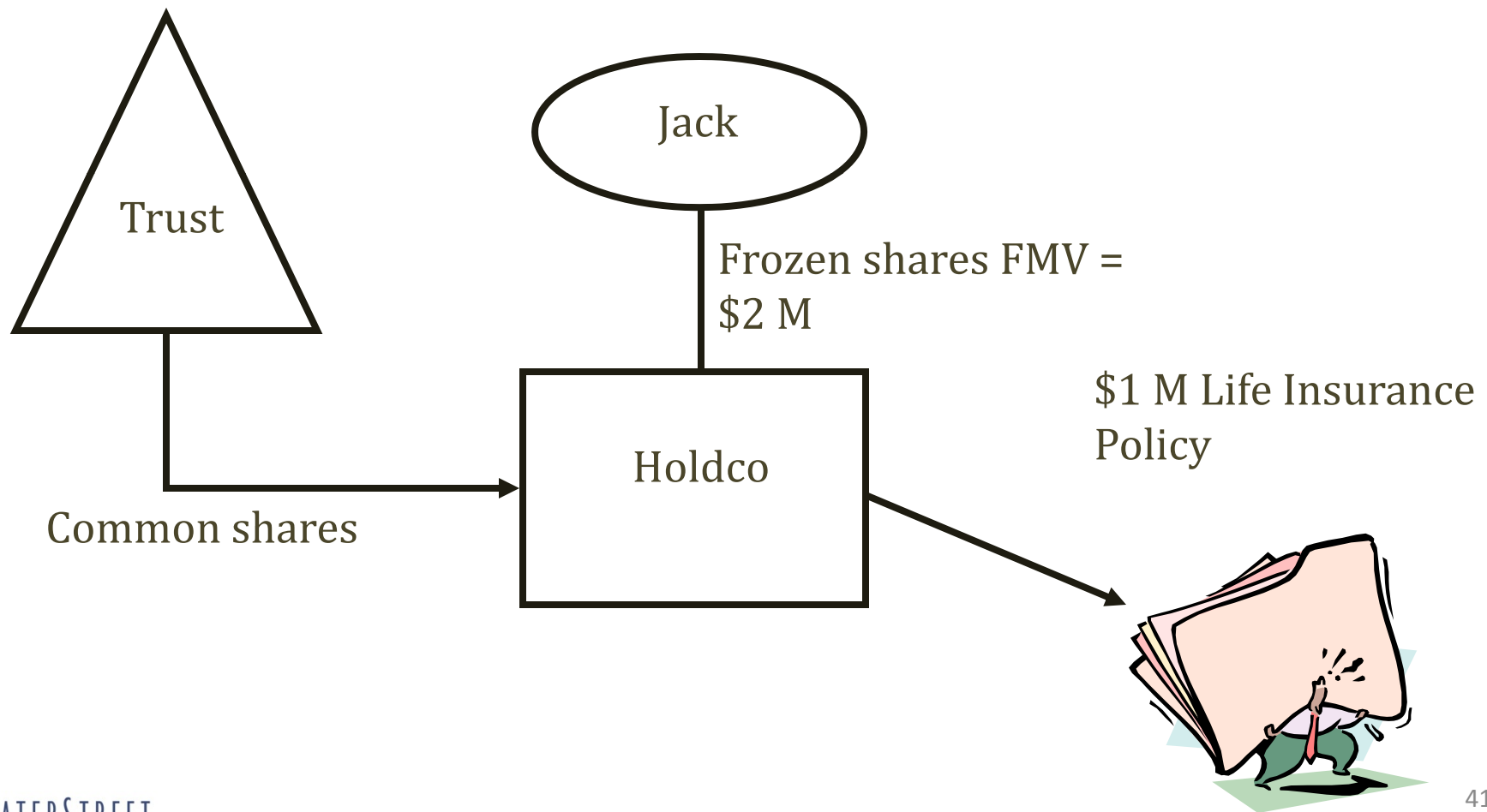


Giving Strategies

Insured Bequest of Shares

- Allows shareholder to donate shares of private company to charity
- Results:
 - no tax to CRA
 - greater value to heirs

Giving Strategies



Giving Strategies

- Holdco is owner and beneficiary of life insurance policy
- Policy is a joint last-to-die policy
- Annual level cost for insurance coverage = \$9,521 for life (both spouses age 60 today)
- Total cost of \$238,025 to age 85
- Alternative: \$24,766 per year for 10 years

Giving Strategies

- On death of surviving spouse: deemed sale of frozen shares – Tax of \$464,100
- Will of surviving spouse: leaves bequest of \$1 M of frozen shares to charity (half of frozen shares)
- Tax credit on terminal tax return of surviving spouse; tax savings of \$464,100

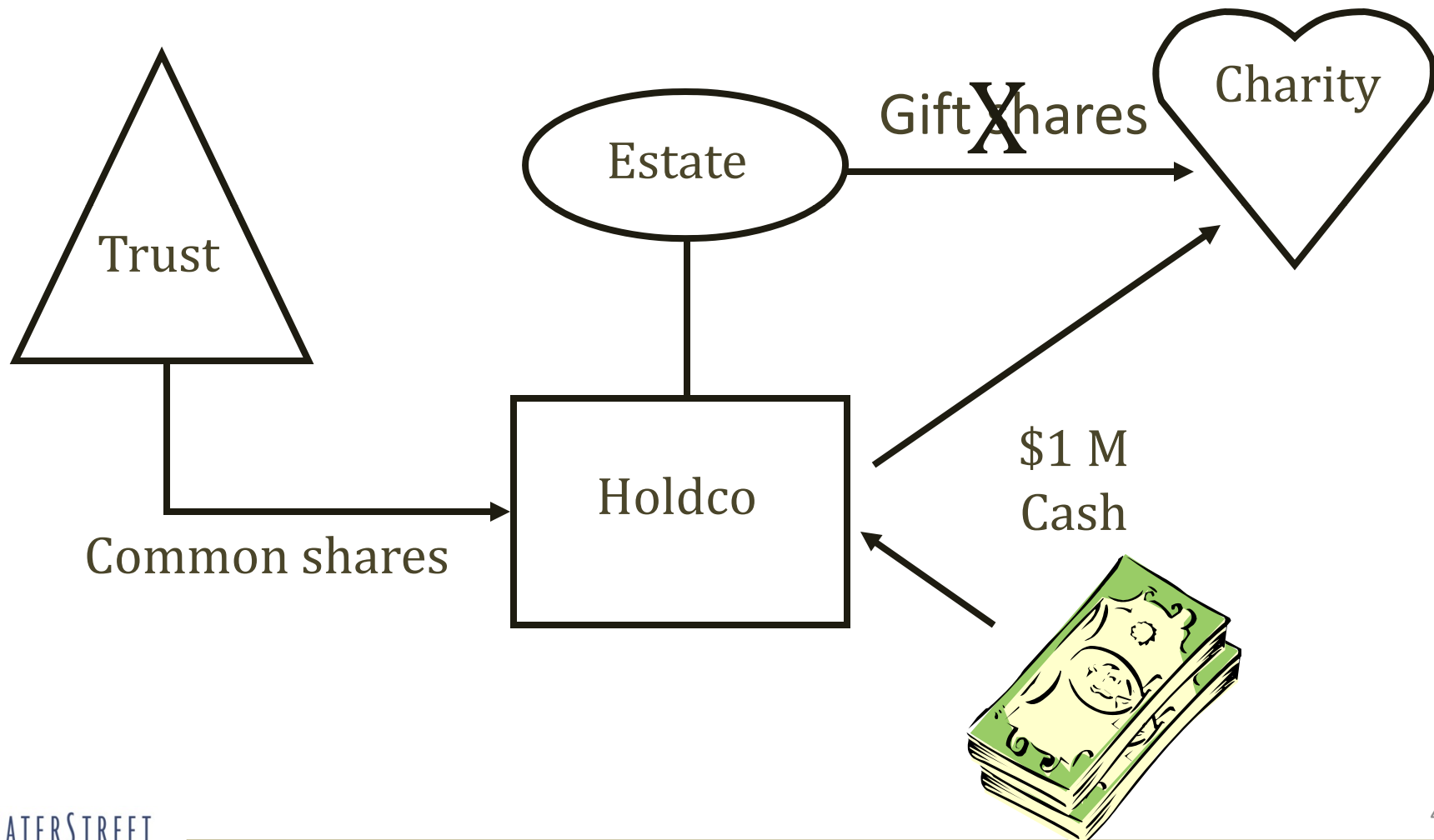
Giving Strategies

- Death benefit from life insurance of \$1 M paid into Holdco; tax free receipt; increases CDA of Holdco
- Holdco uses proceeds to redeem shares bequeathed to charity
- Holdco then repurchases remaining \$1 M of frozen shares from Estate (within 1 year of death) for a promissory note

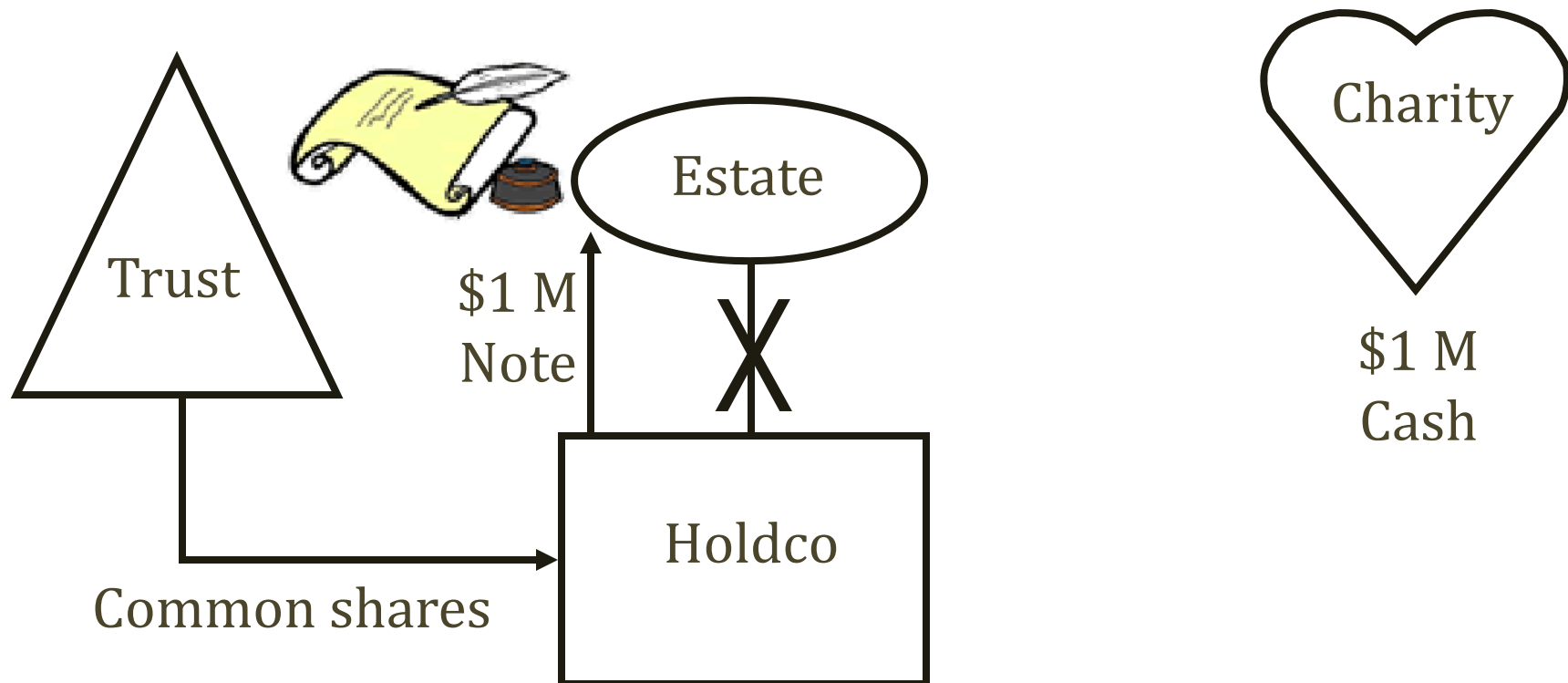
Giving Strategies

- Results:
 - Deemed dividend to Estate of \$1 M (no tax since we can use CDA)
 - Capital loss in Estate of \$1 M (stop loss rules apply to reduce loss to \$500,000); loss will save \$116,000 in tax

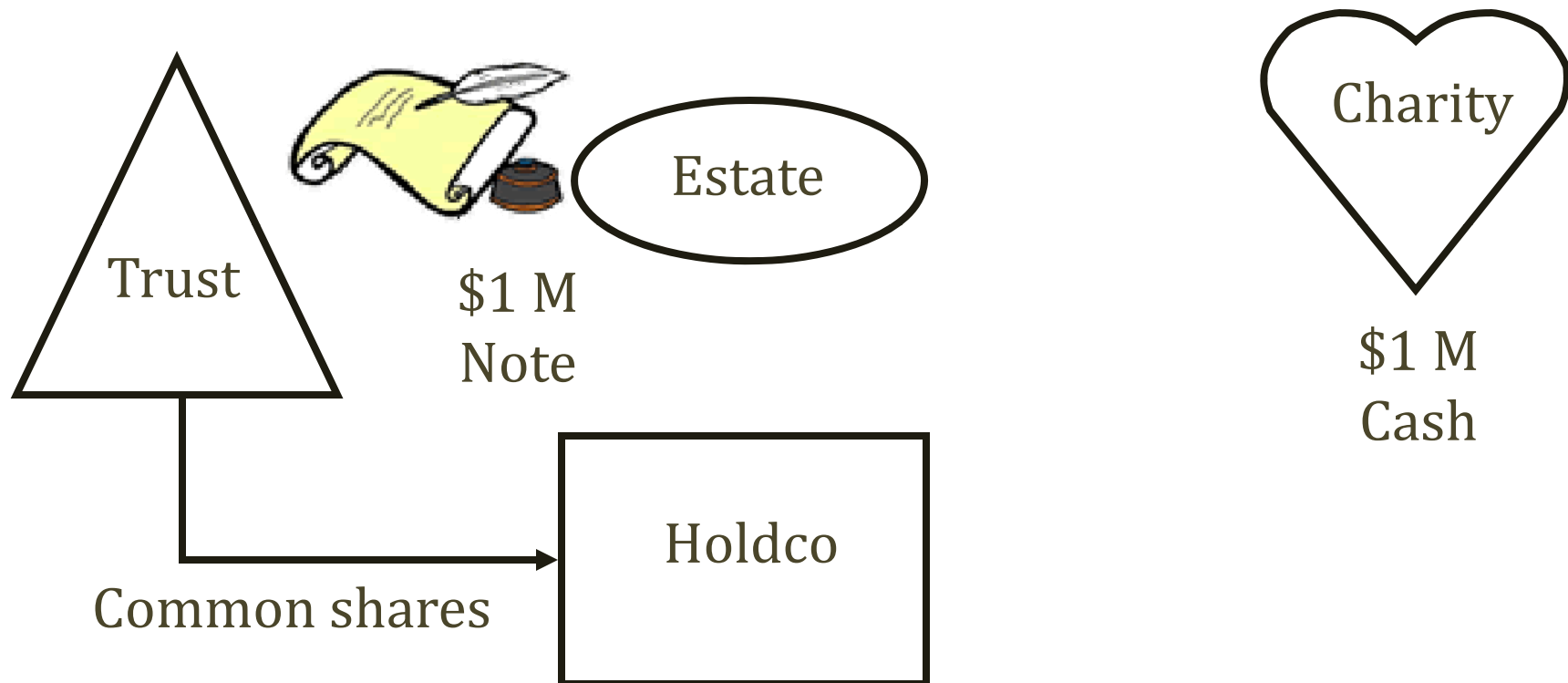
Giving Strategies



Giving Strategies



Giving Strategies



Giving Strategies

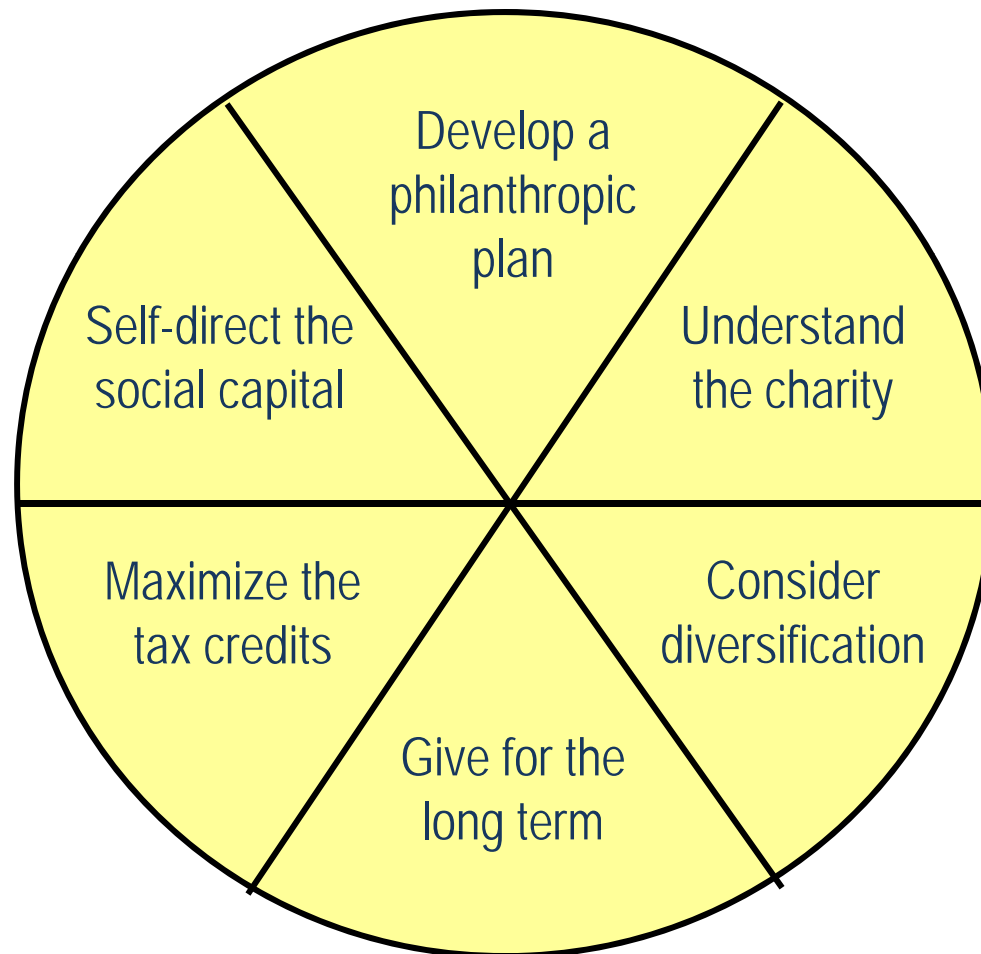
	No Gift	Bequest of Shares	Insured Bequest of Shares
Value to heirs	\$1,535,900	\$1,000,000	\$2,000,000
Value to charity	\$ 0	\$1,000,000	\$1,000,000
Value to CRA	\$ 464,100	\$ 0	(\$ 116,000)

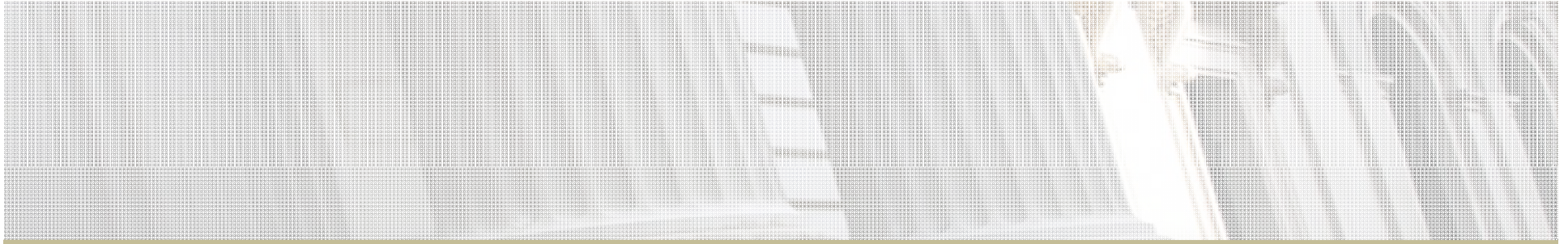


Investment Approach to Giving

- Some families think about giving as investing
- Why?
- Results in more meaningful donations

Investment Approach to Giving

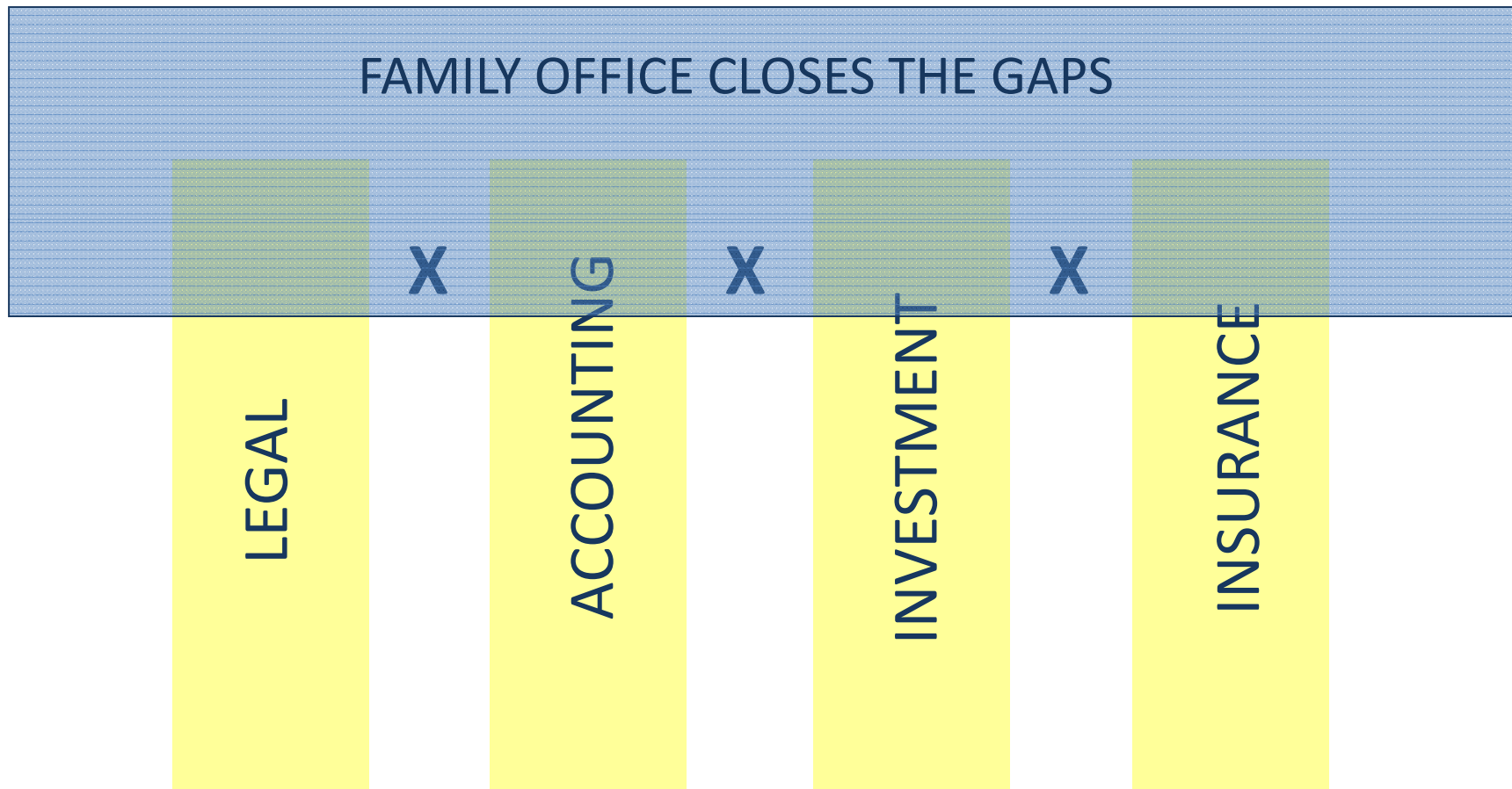




Lesson 5:

An integrated approach to planning is the only way to close gaps.

Integrated Planning Closes Gaps



Where We've Been

- Family Offices Defined
- Lessons From the Family Office:

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Lesson 2:
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Lesson 3:
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Lesson 4:
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