

# Comfortable Surroundings

Best Practices in the Care and Maintenance of Fine Homes

One of the great rewards of financial success is the opportunity to buy or build the home of your dreams. You have the capacity to adapt your surroundings to your family's evolving needs, and to bring in whatever help you require to keep your home clean, comfortable and secure. Even with that help, managing a fine home can be a formidable undertaking. If you own several homes, the challenges become all the more complex. As a result, many affluent families find that the stress of maintaining their residence or residences diminishes the pleasure of owning them. By establishing clear and orderly processes to resolve these challenges, your domestic life can be simpler, less stressful and more comfortable.



Through Morgan Stanley's Signature Access Lifestyle Advisory, your Private Wealth Advisor can provide access to a broad range of service providers to simplify the processes of staffing, insuring, renovating and protecting your home or homes. These services encompass both our internal capabilities and negotiated preferred-pricing arrangements with carefully selected outside specialists. Jerry Garner, founder of Morgan Stanley Lifestyle Advisory Services welcomes all inquiries, saying "Our providers are available to work with you and your Private Wealth Advisor to determine which capabilities, in what combination, is well suited to help your family enjoy the good life at home."

## Successful Staffing

Like many families, you may have found that hiring, training and retaining personal staff is anything but simple. The remedy is to replace haphazard household management practices with a more professional and sustainable approach.

### Start at the top

If you do not want to be the hands-on supervisor who hires, trains and directs your staff, your most important hire will be a competent household manager. In addition to relevant experience and stellar references, Anita Rogers, the President of British American Household Staffing, suggests you look for a manager who is willing to work alongside the entirety of the staff, from private chefs and butlers to housekeepers and nannies. This creates a better sense of community within the home – it helps boost trust between the managers and staff, and helps the staff feel their job position and responsibilities are valued and respected within the home. An estate manager will oversee several properties, each with multiple staff members. A house manager will oversee one property, and the staff related to that property. A house manager often reports directly to an estate manager if there are multiple properties. To ensure a quality house or estate manager hire, it's crucial to first understand the manager's approach to leading, then ensure the candidate knows how to create, edit, and follow a household manual, covering all aspects of running the residence or residences. To ensure a safe and quality hire, you should verify at least ten years of references, run thorough federal and international background checks, administer a drug test if necessary, and always follow your intuition. Ideally, the candidate should be screened by more than one person.

### Hire deliberately

Your household staffing can be expected to do much of the heavy lifting,

implementing a professional hiring process that proceeds in four stages:

- **Initial screening:** Review resumes to identify skilled candidates with records of sustained employment in a household environment and conduct social media checks to identify areas of concern.
- **Personal interview:** Verify information and gain a better understanding of whether a candidate is a good cultural fit.
- **Skills testing:** Ask very specific questions about their experience and skill sets to make sure that they have the specific skills you require.
- **Verification:** Check all references from the candidate's last ten years of employment and confirm that they have the licenses and other formal credentials they claim to possess. Consider running formal background investigations on finalist candidates.

### Train well and review often

Every employee, no matter how experienced, should be given clear expectations of what is expected and how you like things done. In addition to the site-specific instruction, consider enrolling employees in more formal training and perhaps CPR and first aid classes. New hires should have evaluations after their first 30 and 90 days and on an annual basis thereafter. Performance reviews should be dialogues, not lectures. You are working together to help a valued employee perform at a higher level.

### Comply with labor law

In practical terms, all members of your staff other than senior managers are likely to be classified as non-exempt employees. As such, their hours must be tracked, and they are entitled to overtime pay. You are responsible for the employer portions of their Social Security and Medicare payments, and may be required to withhold federal, state and local taxes. You are also responsible for verifying that they are legally eligible to work in the United States. (A driver's license does not fulfill this requirement). Anita Rogers suggests that you ask for a current green card or American passport and note the expiration date so you can verify that it has been renewed.

### Terminate thoughtfully

No matter how carefully you have hired and trained your staff, there will be times when an underperforming employee must be let go. In such instances:

- Briefly explain reasons for termination and have a third person present
- Collect all keys and change any relevant security or access codes
- Terminate all access to bank and credit card accounts
- Offer one week's severance for every year of service (three weeks minimum)
- Ask the employee to sign an exit interview form

If an employee files for unemployment benefits, you will receive a notification

from the State Employment Securities office. Should you decide to deny benefits, clear documentation of the causes of termination will greatly simplify your case.

Since the pandemic, British American Household Staffing has increased its placements of educators and governesses, nationally and worldwide. A British-trained governess hire is a popular choice for home schooling or to supplement school. In addition to academics, a governess will often teach a second language, etiquette, and a musical Instrument. Governess hires are especially popular in our Dubai and Abu Dhabi locations, although they remain in demand in the USA too, especially for older children dealing with extensive academic studies, and college preparations.

### Six commonly overlooked best practices:

1. Meticulously document staff hours. This is required so that you can pay staff for any overtime they are due.
2. Provide workers' compensation insurance. It is affordable risk management and conveys the message that you are concerned about your employee's welfare.
3. Hire staff within reasonable commuting distance. Employees with excessively long commutes tend to retain at lower levels.
4. Don't penny pinch. Highly qualified staff members are in high demand and command premium salaries and realistic work schedules.
5. Be selective in making requests that are outside of job descriptions. Constantly asking, or demanding, that employees do work beyond their prescribed duties, or work longer hours, can quickly breed resentment.
6. Understand your liabilities and take appropriate measures. Have an insurance professional review your policies to make sure you are protected against lawsuits from disgruntled employees. This may require adding special coverage.

## Physical and Cyber Security

While there is no such thing as a perfectly safe environment, there are relatively simple precautions that affluent families can take to protect themselves. Most crimes are crimes of opportunity. So, the best way to enhance your security is to make yourself relatively less vulnerable than other potential victims and, therefore, less attractive as a potential target. Reduce the obvious opportunities, and you will reduce the appearance of being an easy target.

### Improving home security

Highly affluent families are well advised to engage a professional security firm to assess risk and existing security measures of their home or homes, family office and workplace. Matt Peters, Senior Vice President at Guidepost Solutions suggests that “The first priority should be to address your threat profile in a holistic manner. A full security assessment will establish your baseline risk and will include aspects of a digital vulnerability assessment, as well as gaps in the physical security program. With the digital vulnerability assessment, we’re determining what personal identifiable information a potential bad actor may be able to obtain regarding your residence, family members and pattern of life.” These audits will typically focus on four areas: staff, security systems, physical premises and neighborhood context.

### Household staff

A professional background check should be conducted before hiring any household staff member. This should be updated annually and include a check on their spouses and partners. The same process applies to any vendors who visit your home on a regular basis. Give keys only to employees who need them for their jobs and be sure to get them back when an employee leaves. Also, be careful about leaving sensitive corporate or personal documents where they can be seen by staff, vendors or visitors.

### Security systems

The most common problem with home security systems is that their owners don’t know how to use them.

Security auditors routinely find systems that are poorly programmed, so they only work when no one is home or are simply turned off. Other common vulnerabilities include inadequate back-up power systems to keep systems operational in case of an extended loss of power; and systems that don’t extend to the garage, where you are first exposed to a threat upon returning home.

### Physical premises

Security auditors often find door and window locks that are broken or easily bypassed. This tends to be a greater problem on side, back and basement doors than front entrances. Inadequate security lighting is also a common concern. In extreme cases, auditors find signs of deliberate tampering on gates, doors and windows that the homeowners did not notice.

### Neighborhood context

As affluent families tend to live near other powerful and influential people, many of whom are targets for all manner of serious crime. It’s important to understand the threat levels of neighboring residences and how that may impact the security needs of your home.

Perhaps the most common, and most serious, security gap is the lack of an emergency plan.

Matt Peters stresses that, “Every member of the family should have a clear understanding of what to do, and who to call, in case of a fire, natural disaster, intruder, or medical emergency, and have the necessary training needed to implement that plan.”

# Cybersecurity and Fraud Prevention

Ultra-high net worth families are among the most appealing targets for cybercriminals. As such, you may require additional safeguards to protect access to your assets and sensitive information. Rachel Wilson, Morgan Stanley Wealth Management Chief Data Officer, stresses the importance of a proactive approach, “You never want to be thinking about how to deal with a cybersecurity emergency during a crisis. Plan ahead, envision the worst-case scenario, understand your vulnerabilities and then build your defenses accordingly.” She offers the following tips and best practices to help you take stock of cybersecurity practices at your home, family office and other entities.

## Scam Prevention Best Practices

Start by sensitizing yourself and your staff to social engineering techniques. Social engineering is a deceptive tactic used by sophisticated scam artists to convince someone to unwittingly divulge sensitive or personal information. To spot and thwart these scams:

- **BEWARE OF SPOOFED EMAILS OR CALLS** attempting to compromise your data or gain remote access to your network.
- **NEVER CLICK ON A LINK OR OPEN AN ATTACHMENT FROM UNSOLICITED SOURCES** via email or text message.
- **VALIDATE ANY PAYMENT INSTRUCTIONS SENT VIA EMAIL** by calling a verified phone number on file.
- **ONLY ANSWER PHONE CALLS FROM NUMBERS YOU RECOGNIZE** and be guarded when providing your personal data by phone, especially if you did not initiate the contact.
- **TAKE YOUR TIME TO FULLY DO YOUR RESEARCH** on any organization before engaging or sending funds as fraudsters often try to create a false sense of urgency.

## Cybersecurity Best Practices

Taking just a few simple steps can significantly reduce the threat of identity theft, malware infections, cybercrime and more.

- **KEEP YOUR SOFTWARE, OPERATING SYSTEM AND BROWSER UP TO DATE** to help prevent your devices from becoming infected with malware.
- **RUN A REPUTABLE ANTI-VIRUS PRODUCT** on your PCs and laptops.
- **DON'T REUSE THE SAME OR SIMILAR PASSWORDS** across multiple websites and applications. Instead, use a password manager to create and store unique, lengthy and complex passwords for you.
- **ENABLE MULTI-FACTOR AUTHENTICATION (MFA)** (verification beyond a username and password) for your sensitive accounts.
- **AVOID PUBLIC, UNSECURED WI-FI OR USE A VIRTUAL PRIVATE NETWORK (VPN)** to encrypt your communications and defend against interception and tampering.

## Additional Questions for Foundations and Family Offices:

In addition to the guidance above, consider asking the following questions of those charged with cybersecurity at your foundation, family office, place of business and personal residence:

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Do we have a detailed, maintained and enforced cybersecurity **policy**?

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Do our employees receive regular cybersecurity **training**?

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Have we developed and practiced an **incident response plan**, including recovery from backup data storage systems?

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How do we **restrict access to our most sensitive data and systems**?

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Is there a **comprehensive inventory** of our hardware, software and systems and who has access/entitlements?

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Do we have **monitoring** in place to detect intrusions or data loss?

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What **third-party vendors** do we engage, and what security standards do we demand of them?

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Have we hired an external entity to conduct a security assessment and **test our defenses**?

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## Renovation and Construction

Undertaking a substantial renovation or construction project to transforming the home you have into the home you want can be an immensely rewarding venture. Keeping these projects on track depends largely on the processes you employ to hire the right people, and the clarity with which you communicate your ideas and expectations.

### Assembling Your Team

In addition to an architectural firm, most household construction and renovation projects involve three categories of outside professionals:

- A general contractor is the primary person or company you hire to see the project through to completion.
- Subcontractors are the tradesmen and other specialists hired by the general contractor to handle different parts of the project.
- Vendors sell the goods needed for the project at hand.

For major undertakings, consider hiring a construction manager to oversee the project. Typically compensated with a management fee and incentive bonus, a

qualified construction manager serves as an expert on your side of the table. He or she can help you identify qualified contractors, negotiate contracts, and resolve issues as they arise. David J. Cohen, CEO of I-Grace, a leading residential builder, and construction advisor, suggests that construction managers be brought in at the beginning of a project, before design begins, noting that “It is often challenging for Owners to understand how their design aspirations impact the project’s cost and schedule. A construction manager can provide early insight into a project’s cost and schedule—as well as feedback during the design process. By retaining a construction manager at the beginning of the process, the owner can conceptually explore multiple scenarios, establish a project mandate, and reverse engineer the project so it aligns with their expectations. In doing so, an owner will establish a framework for making informed decisions consistent with their priorities and avoid potential surprises down the road.”



## Key Questions to Ask Potential Contractors

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### 1. WHAT WERE THE PRICE POINTS FOR YOUR RECENT PROJECTS?

It's important to select contractors, subcontractors and vendors are comfortable working in the ultra high net worth environment. Your project is likely to be larger and more complex than the average family's, and you may have higher service and quality expectations.

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### 2. WHAT ROLES DID YOU PLAY IN RECENT PROJECTS?

Don't assume that a contractor or vendor handled every aspect of the jobs they showcase in their promotional materials, or even those they give you as references. Ask what their specific responsibilities were on those projects.

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### 3. ARE YOU PROPERLY INSURED?

Ask for a copy of their current Certificate of Insurance, or (COI). Read it carefully or, even better, have your attorney review it. Make sure that they have at least several million dollars in coverage, and that there are not already claims against them.

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### 4. WHO IS RESPONSIBLE FOR SUBCONTRACTOR LIABILITY?

While most general contractors are insured to cover liability suits brought by their subcontractors, this is not always the case. Make sure that you understand any limitations in this coverage.

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### 5. DO YOU HAVE THE SPECIAL EXPERTISE THIS PROJECT REQUIRES?

Even exceptionally talented and ethical contractors can't be good at everything. Make sure the contractor has experience with the specific type of project you are undertaking. The same rule applies to certain types of topographies. For example, if you are rebuilding a seawall at your beach house, choose a contractor with experience working in a sensitive marine environment.

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### 6. WHY HAVE YOU CHOSEN THESE REFERENCES?

In asking for at least four references, understand what products or services were provided to the client, when the work was done, and if there was a personal relationship involved. Be sure that the references they have provided are for projects of similar size and scope to yours.

## Property/Casualty Insurance

Many aspects of the affluent lifestyle create loss or liability exposures that should be carefully considered as part of an overall risk management plan. These liabilities tend to grow in magnitude and complexity as families acquire multiple properties across several states or countries, acquire valuable collections and/or purchase recreational vehicles and watercraft.

The unique risk profiles posed by ultra high net worth families are not well understood even amongst many insurance professionals. This can lead to inadequate coverage, or gaps between coverages that can create significant unintended liability. Some common errors include:

- Leaving gaps between underlying auto liability and excess liability policies, particularly when purchasing or leasing a new car.
- Not listing trusts and LLCs as property acknowledged for liability coverage.
- Misunderstanding of contents coverage limits leading to inadequate coverage of jewelry, silver and other valuables.
- Providing umbrella liability coverage that does cover boat, ATV or other “toys” kept at vacation homes in another state or country.

### The holistic risk mitigation review

There are compelling reasons to have an experienced professional conduct a comprehensive review of your risk mitigation strategy. Your personal risk advisor should be able to determine whether you are adequately covered by assessing gaps and duplications among all of your policies. They should also be able to identify an ineffective use of premium dollars and identify opportunities to reduce your premiums by consolidating policies at fewer carriers. Bundling policies often offers greater value and may allow you to secure coverage despite a poor driving record or other situations where a carrier may be reluctant to write an individual policy. If you chose to bundle with a single carrier, you can also arrange to have a single effective, and renewal, date. This reduces your administrative burden, perhaps even consolidating all of your premiums into a single annual bill.

### A thorough risk mitigation review should include any of the following areas that apply:

- Personal Liability
- Multiple Properties
- International Properties
- Flood, Earthquake and Wildfire
- Art and Collectibles
- Jewelry and Other Valuables
- Special Ownership Vehicles (Trusts, LLCs, etc.)
- Domestic Employees
- Board Memberships
- Aircraft
- Automotive
- Marine
- Business Exposure
- Kidnap and Ransom



## Mortgages and Financing

Given the difficulties of securing mortgages of adequate size, affluent families tend to favor purchasing their homes with cash. For example, New York City based realtor Douglas Elliman reports that 75% of the clients' New York City condo purchases of \$3-\$5 million were cash only transactions-in 2023.\* It was the highest figure recorded since 1989.\*\*

Many affluent families, particularly those whose wealth is concentrated in relatively illiquid investments, may not have cash on hand for a multimillion dollar home purchase. If assets have to be sold to generate the needed liquidity, long-term investment and wealth transfer strategies can be disrupted and potential tax liabilities may be

created, necessitating many ultra high net worth home buyers to explore alternate strategies.

One strategy might be an asset-based loan through our Tailored Lending, which uses a broad spectrum of eligible collateral ranging from investments to real estate to collectible art. This approach enables you to act quickly in a hot real estate market without needing to keep large cash balances on hand. However, asset-based or securities based loans may not be right for every client. Before considering an asset-based loan, consult with your Morgan Stanley Private Wealth Advisor, and potentially a qualified tax professional, to discuss the risks and benefits of the strategy.

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Borrowing against securities may not be appropriate for everyone. Clients must be aware that there are risks associated with a securities based loan, including possible maintenance calls on short notice, and that market conditions can magnify any potential for loss. For details please see the important disclosures at the end of this document.

\*Source: Douglas Elliman Internal Report, 2023

\*\* Source: Statista. Available at: <https://www.statista.com/statistics/185213/us-house-sales-for-cash-since-2000/>

Published by Statista Research Department, Mar 15, 2024

## COMFORTABLE SURROUNDINGS

The enjoyment of your home need not be compromised by tending to the myriad details needed to maintain it properly, and to keep you and your family safe and comfortable.

Through Morgan Stanley's Signature Access Lifestyle Advisory, your Private Wealth Advisor can introduce you to highly qualified and carefully screened professionals who specialize in advising and assisting ultra high net worth homeowners.

Signature Access Lifestyle Services was created to help our clients simplify the management of the affluent lifestyle. Working closely with your Advisor, we are here to help you and your family enjoy the lives you have created for yourselves.

**Valerie Wong Fountain**, Head of Family Office Resources Platform & Partner Management.

**To schedule a consultation, please speak to your Private Wealth Advisor.**

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