

FARM TRANSITION AND FARM SUCCESSION PLANNING

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Northwest Research Station

6686 South Center Highway

Traverse, City, MI 49684

Curtis Talley Jr.

Farm Management Educator

MSU Extension, Hart, MI

231-873-2129

talleycu@anr.msu.edu



Why Goals?

- “I don’t need goals, let’s just get this done! What kind of agreement do we need, trust, LLC?”
- “I don’t have time to think about goals!”
- “I don’t want to spend much money to do this!”
- “I want to continue working; don’t want to retire, so this not the right time to plan”
 - There are many ways to transition into retirement

Goals Drive Everything

- What you do demonstrates your goals
- True Story: Father and successor went to a financial advisor
 - Father followed all advice that benefited him
 - Did not act on anything that dealt with business succession
 - Father had no ideas or conversation at succession meetings
- What message was the father sending?
- Were his goals to create a succession plan?
- After a lot of heartache, hurt and anger the successor found out that father's plan was no plan. Successor would deal with the other 3 non-farming children after father's death

Goals Drive Everything

- Would a schedule of measurable steps early in the process have helped?
- Father acted like he would create a succession plan but avoided actually doing it and addressing the difficult decisions needed to be made (“maybe it will go away”)
- Successor left after 10 years working on the farm and working part time off farm, wife working full time off farm and part time on farm
- End result: Farm sold, successor moved away, father and successor did not speak for years

Goals Drive Everything

- If have successor and plan to treat everyone equally; tell the successor
- If your most important goal is to continue the business, that should drive the plan
- If goal is to treat everyone “equally” that will drive your plan
- Be prepared for the consequences
- Do not lead successor(s) along with false hopes
- “We make time for what we think important”

Key Goals of Succession Plans (Assumes all Children Grown)

- Secure retirement income and that of surviving spouse
- Pass on family business/farm intact
- Minimize estate costs (probate)
- Minimize taxes
- Must be driven by mom and dad

Mom and Dad Goals May Be:

- Slow Down, more time off
- Minimize Risk
- Protect assets
- Pay off debts
- Get Son/Daughter to work harder
- Take less responsibility – more to S/D
- Don't want to give up control
- Son/Daughter should start where they did 35 years ago

Successor Goals May Be:

- Do what I love, but how support the family?
- Have authority to make some decisions
- Raise kids in an ag business
- Enthusiasm, try new things!
- Utilize mom and dad's financial position
- Expand operation, invest
- Buy mom and dad's machinery
- Buy the land eventually
- Have more time off





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What are Effective Goals?

- Measurable and have a deadline; **deadlines make us act**
- Example:
 - By what date will we have our balance sheet updated?
 - When will we complete our “retirement” budget?
 - Let’s compare our goals with our successor; when will we do this?
 - We need to discuss our plans with the non-farming kids. We need this done by?

Think Back Senior Generation

- In your own life, did you learn more when you were responsible for the outcome?
- Based on what you have accomplished, are you thankful that you had the authority to make decisions?
- Is this your attitude toward the successor?, or is it: “They have ideas but I know they won’t work”

Communication

- Communication is key though difficult
- Start by meeting with successor
 - Have agenda
 - Meet in a neutral place
 - Maybe include one of advisors
 - Summarize points of agreement and decisions made
 - Clarify who will do what and time-frames
 - Identify the issues to be carried over to the next meeting

Communication

- Written detail/summary of the meeting
- Next step include successor's family
- Next step include rest of family
 - If one spouse, all spouses

Summary

- See goals sections of Transitions workbook
- Your actions demonstrate your goals
- Succession does not mean becoming idle
- Plan for the future
- Communicate and follow through

Questions?

Family Meeting Format

- **REACH AGREEMENT AND CLOSURE**

Facilitator summarize points of agreement and decisions made

Clarify who will do what and time-frames

Identify the issues to be carried over to the next meeting

Written detail/summary of the meeting

Aligning Goals to Create Success

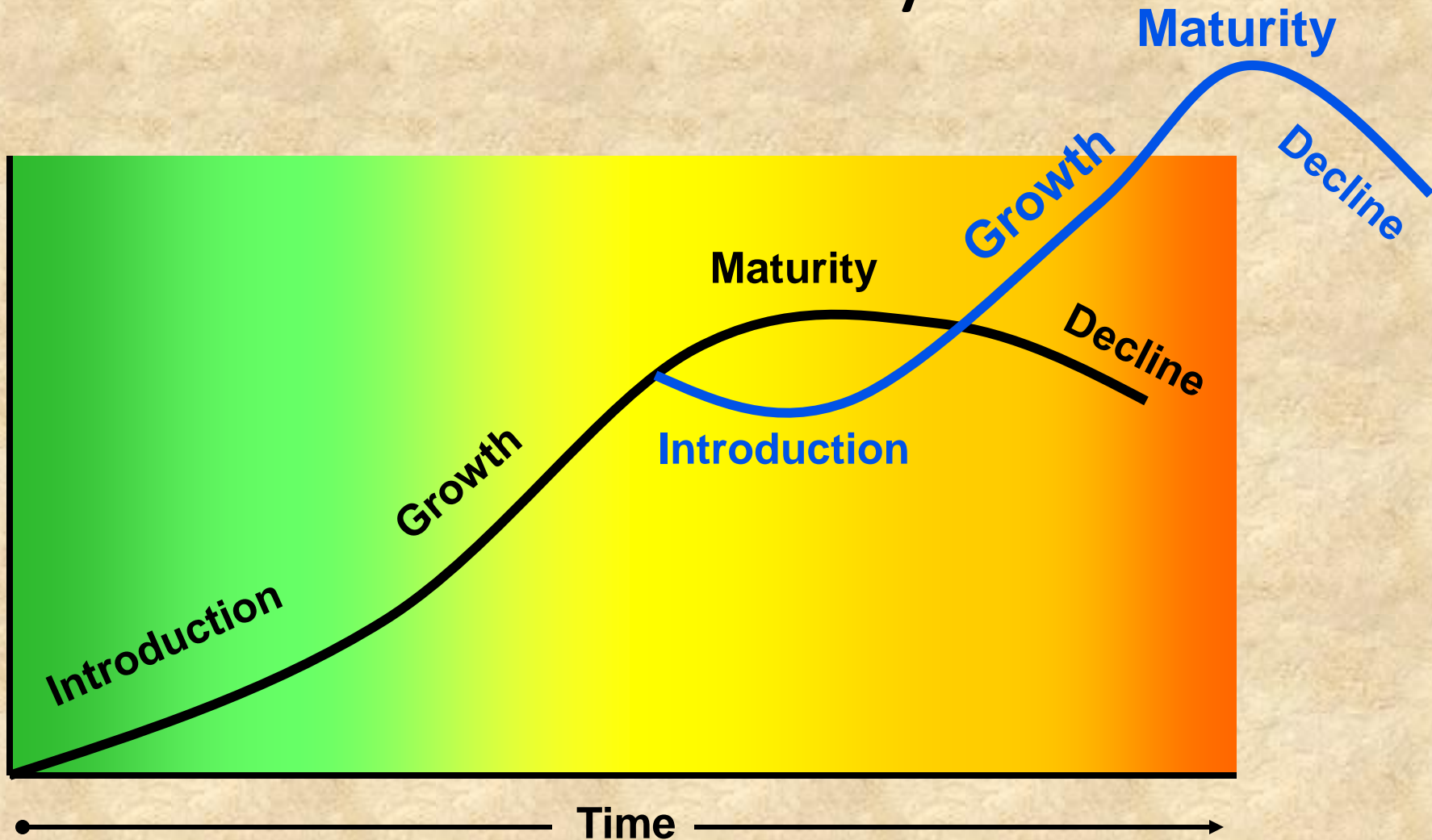
(can you answer YES to these questions?)

- Are the parents ready for a partner?
- Is the child committed to the business?
- Is the business large enough?
- Can you create a Common Vision of your future together?
- Can you live and work together?
- Are the non-farming children supportive?

Goals of Estate/Succession Planning

- Pre and post retirement security
 - Long term Care
- Equitable treatment of children
 - Fair vs. equal for business successor
- Continuity of business
- Minimize transfer costs & taxes
- Provide flexibility and durability

Business Life-Cycle



Source: Wadsworth

Estate/Business Succession Steps

Assumes Children Grown

- Inventory assets and liabilities
- Historic personal and business profitability and cash flows
- Determine \$ needed in retirement
- Consult advisors
- Construct estate/mgt plan
- Will/trust/operating plan/powers of attorney/transfer, etc.

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Goal - Minimize Income and Estate Taxes

- Need to evaluate both Income and Estate Taxes
- Need to look at both families both generations
- Sale of Land versus Inherit
 - “Step-up” in income tax basis issues
 - When will “step-up” be useful? Depends on asset and how used

Goal - Preserve Asset Value

- Can younger generation make sufficient profit to not drain equity?
- Are payments structured to allow younger generation sufficient cash flow for business and family needs?

Goal - Ensure Financial Independence of Current Owners

- How is senior generation dependent on profit of business
 - Fixed payments
 - “In business together” for profit sharing
 - Do Mom and Dad Owe Children Anything?
 - What is Equitable to each of the children or others?

Goal - Orderly Transfer of Assets

- Achieve family harmony
- Do people know what is/will be happening “What Ifs”
- Steps over time or an abrupt change all at once
- Room for changes and flexibility
- Younger generation see and experience progress
- Who will make payments to whom?

Short-Term Goals

- **Specific** – The goal achieves a particular, detailed result
- **Measurable** – There is a means to determine the goal is achieved
- **Attainable** – Within economic and physical capabilities of the business
- **Rewarding** – Profitable and self-satisfying
- **Timed** – Have a deadline

Short-Term Goals

- Short-term goals get much more specific on how to start meeting over long-term goals.
 - These can take from a few hours to weeks to complete and build the foundation for achieving long term goals.
- You address the issues related to what, how, how much, and when.

Long-Term Goals

- **Directional** – Moves you in the general direction of your mission statement objectives
- **Reasonable** – Are practical and obtainable; not extreme
- **Inspiring** – challenging; affects you positively
- **Visible** – Able to measure, easy to visualize
- **Eventual** – Will be fulfilled at a future time

Long-term Goals

- Long-term goals help the business realize its vision/mission.
- DRIVE acronym
- DRIVE means your long-term goals have **Direction** and are **Reasonable, Inspiring, Visible** and will occur **Eventually**.

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Retirement Planning

- **Timing:** when will I retire
- **Residence:** where will we live
- **Income Source:** from where will the money come
- **Household Budget:** how much will it cost us to live in the style we want
- **Recreational Needs:** what will we do when we retire
- **Health Care Needs:** can we afford to stay healthy
- **Long Term Needs:** will we outlive our money