



## Farm Transition Planning Today for Tomorrow's Farms

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## Development Threatens Agricultural Land



From 2001-2016, 659,000 acres of agricultural land were developed or comprised in Tennessee.

- \* 22% Urban & highly developed
- \* 78% Low-density residential

<https://farmland.org/>

Source: American Farmland Trust

<https://farmland.org/project/farms-under-threat/>

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# No Ranchers Under Age 35 by 2033!



- Focus on the High Plains of the American West
- Evaluated 90 years of Census Data and projected trends
- What state will have no ranchers under age 35 by 2033?
  - Wyoming



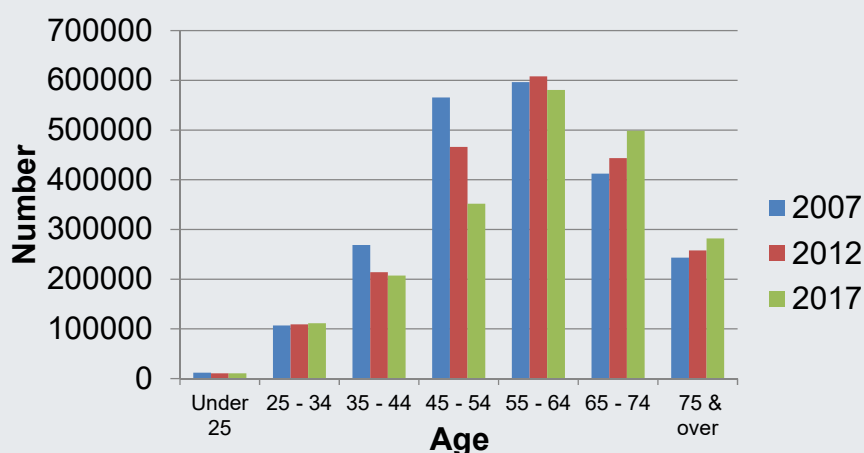
Source: Beef Daily, Amanda Radke 12-29-14  
Glick, et. al. 12/2014

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## Principal Farm Operators / Primary Producers by Age



2017 average age of primary producer 59.4 years (2012 = 58.3)  
Average age increases approximately one year for each census cycle.

Source: 2007, 2012, 2017 Census of Ag

## Projections . . . .



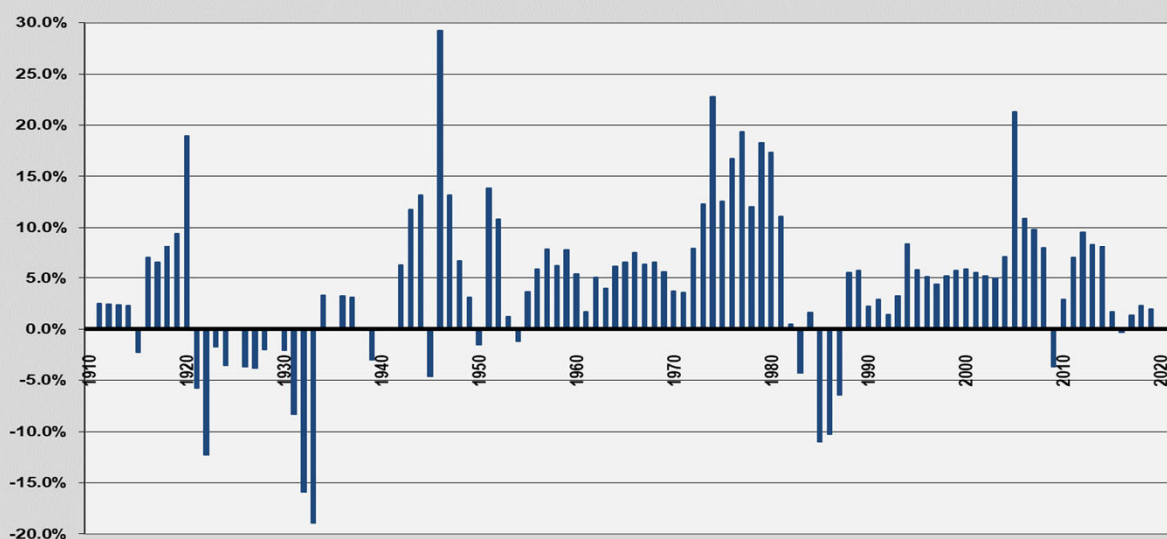
- Over the next decade **half** of the farmers will retire and will be replaced by beginning farmers (*Katchova, 2010*)
- **70%** of farm ground will change hands by 2025 (*Kohl, 2010*)
- **40%** of the ag land in the nation will be in transition within the next 15 years (*American Farmland Trust, 2020*)
- What additional factors have influenced the rate of farmland changing ownership or management?

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Annual Percentage Change in US Farm Real Estate Values  
1910-2020



Source: Dr. Steve Isaacs, Univ. of KY

# Tradition . . .



**“I firmly believe that adhering to tradition is the greatest obstacle to production agriculture.”**

James A. Bennett  
Sunbelt Farmer of the Year  
for Virginia

Owens Three Breeds of Cattle,  
900 head, Farms 2500 acres



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# Tradition . . .



**No industry has a stronger tradition of passing on the business, and does a poorer job of accomplishing it.**

- “Home place”
- “5<sup>th</sup> generation farm”
- “Century farm”
- “3 generations farming together”



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## Top Eleven Pitfalls in Farming



- Not knowing your Cost of Production (COP).
- No plan for transferring the farm to the next generation.
- Inadequate financial recordkeeping.
- Lack of a clearly defined business plan.
- Lack of communication.
- Avoiding or deferring taxes.
- Lack of financial reserves.
- Not managing family living expenses.
- Following your neighbor.
- Jumping on the latest/newest/hottest enterprise.
- Not training the next generation.



Bill Whittle, Extension Agent  
Farm Business Mgmt. , Virginia Tech

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## Transition Planning Includes . . .



- |                       |                            |
|-----------------------|----------------------------|
| • Estate Planning     | • Family Goals             |
| • Tax Planning        | • Management Transfer      |
| • Business Planning   | • Labor / Responsibilities |
| • Retirement Planning | • Exit Strategy            |



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# Family Goals / Plans Communication



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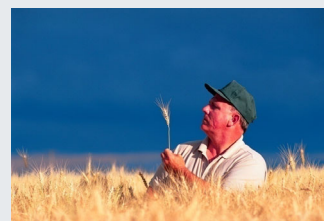
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## Goals



- 80% of Americans have no goals
- 16% have goals in their mind but never write down
- 4% write them down and make 9x more money

Source: Business Planning Lite, Dr. David Kohl, Virginia Tech



- Short term vs. Long term
- Family, Lifestyle, Business, and Financial
- Everyone contributes (communication)

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# Why do farm families struggle to communicate?



## Common Barriers to Communication

- Lack of role separation
- Not an easy topic to discuss
- Noise and Stress
- Off-farm heirs and on-farm heirs
- Generational differences
- Personality differences
- Gender differences



Source : David Marrison OSU Extension

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# How can we improve family business communication?



- Start with your communication
- Take time to explain
  - Today's farm language (Avoid abbreviations)
  - Transition planning terms
- Learn about personality types and communication styles
- Hold family business meetings
  - Outside facilitators can help



Source : David Marrison OSU Extension

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## Succession Plan Adoption



- In the U.S.
  - Approximately **68%** of adults do not have a will
    - Source (Caring.com 2020 survey)
- In U.S. agriculture
  - Only **20%** of Farm Journal readers are confident of their succession plan
  - FarmLasts estimates **88%** of farmers and farmland owners DO NOT have an exit plan
  - Only **1/3** of soon to retire farmers have identified a successor
- Master Farm Manager Participants (pre-program survey n=380)
  - **16.3%** have a farm transition plan (62 participants) (10/2020 & 2/2021)



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## Passing on the Family Business



- Your farm will one day experience transition
  - Even if there is **NO TRANSITION PLAN**
- The farm business can be transferred as
  - Ownership of assets . . .
    - **A WILL**
  - A viable farm business with a plan for continuation . . .
    - **A WAY**
- Or sale and division of assets
  - **Often AN END**



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## Challenges and Opportunities



- A major challenge is to determine whether the business can afford the transition.
- Often a bigger challenge is to determine how the family wants to handle the transition.
- The greatest challenge is to create and execute the transition plan.



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## Challenges and Opportunities



- Adequate retirement income for the parents is most likely going to be **first priority**
- Determine retirement income needs
  - What are lifestyle costs today?
  - Will any costs change when in retirement?
    - Potential costs of long term care?
  - How much income from Social Security, pensions, savings, investments, the farm?
  - Adjust for inflation

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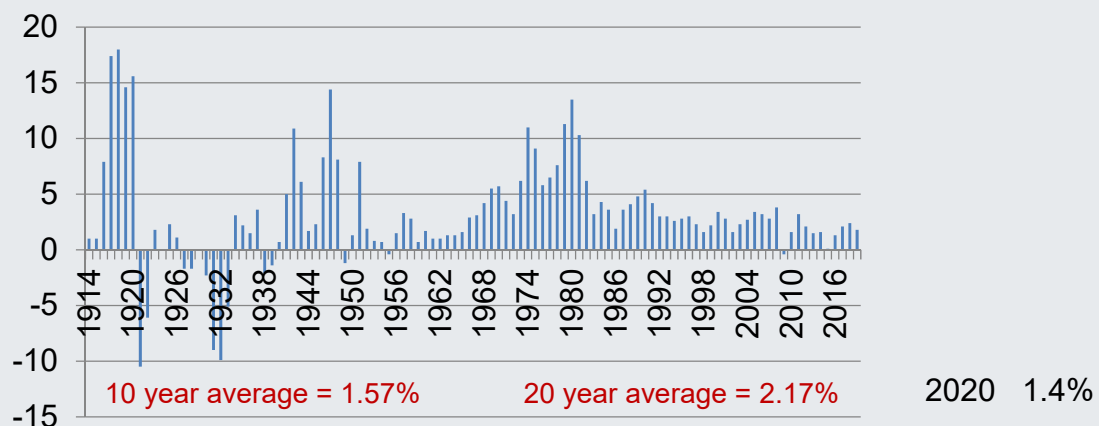
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# Challenges and Opportunities



## 100+ Years of Inflation

Annual % Change of CPI



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## Will the farm support a transition?



- Is the farm operation profitable?
  - Sort Run / Long Run
- Is it profitable enough to support multiple generations?
- What is your desired standard of living?
- Let's focus on:  
Family Living Expenses

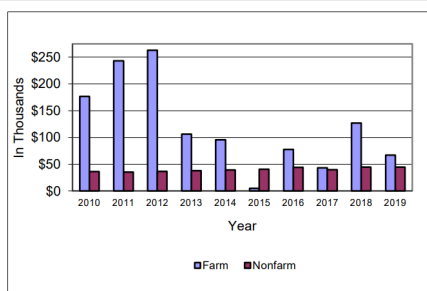


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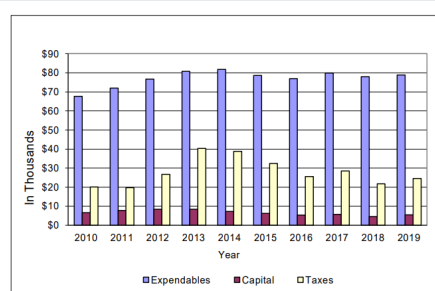
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## Illinois Farm Business Management Association (October 2020)



**Figure 2.** Net farm and nonfarm income, 2010 through 2019.



**Figure 1.** Noncapital and capital family living expenditures and income tax and social security payments, 2010 through 2019

In 2019, average non-capital family living expenses = \$78,894  
 Average capital family living expenses = \$5,446  
 Average income tax and social security payments = \$24,525  
 1,257 farm families

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## Will the farm support a transition?



- Family Living: **\$100,000** plus or minus “a lot”
- Couples over the age of 65 require **25% more** in living expenses to support lifestyle compared to a 35 year old couple (Kohl)
  - Medical Costs, Travel, Grandchildren
- How does transition affect retirement planning?
- A little math. . .
  - $2 \times 3 \times 5.0 \times 365 \times 15 = \mathbf{164,250}$
  - $2 \times 3 \times 7.5 \times 365 \times 15 = \mathbf{246,375}$
- Will the farm be supporting two or more families?

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## Where do we start?



- Starts with the **parents**
- **Reasonable** plan based on **realistic** expectations
- Parents, it's not just **"slowing down"**
- Develop and use a **Transition Team**
- It's not "one-and-done" – **update** periodically



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## The Transition Team



- To develop a plan, get advice from several different sources
- Attorney, accountant, financial planner, lender, extension educator, business consultant, etc.
- Functions as an advisory board
  - Ideas, technical information, evaluation, suggestions
- Hire a facilitator
- Go off site – not a "kitchen table" discussion

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## Involve and Prepare the Family



- Working here does not necessarily qualify you to be the manager
- Don't protect next generation from current business problems or successes
  - Has the next generation seen the books?
- Treat siblings (heirs) fairly, not necessarily equally
  - Equal may not be possible, or desirable
  - Failure to define equal/fair is not a reason to do nothing
- Don't neglect spouses / May not be priority for some

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## Key to Success: Management



- Transferring ownership is easier than transferring management
- Management may have a low heritability coefficient
- Identifying new management team requires input from both generations
- Managing is a continuing education process

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## Why transitions fail . . .



- Mixing business and family
- Strengths don't align with business needs
- Unexpected events – untimely death, marriage, divorce, weather, economy
- Lack of parental approval and affirmation
- Sibling disputes
- Failure to communicate



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## Farm Transition Questions



- Will the farm business economically sustain a transfer?
- Do we have enough income and assets to provide for each generation's needs?
- How do you **work together** to make the transition a success?
- What and when . . . should transfers to the next generation be made?
- How do you avoid unnecessary gift, income, or estate tax?

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## Additional Resources: Farmland Legacy

<https://farmlandlegacy.tennessee.edu/>



University of Minnesota

<https://agtransitions.umn.edu>

 AgTransitions

"Moving forward together"

Iowa State University

Beginning Farmer Center

<https://www.extension.iastate.edu/bfc>

Farmland Information Center

Many others . . .

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## Additional Resources . . .



### *What My Family Should Know*

Full Legal Name

Date this Booklet Completed:  Updated:

### *Personal Information and Citizenship*

Home Address:

Business Address:

State of Legal Residence:

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# Additional Resources

“What My Family Should Know”

Fillable PDF File

Revisit / Update

Caution (sensitive data)

- optional
- secure

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## Friendly Reminders



- Don't assume you will have time or feel well enough to complete your “bucket” list.
- What knowledge has not been transferred?
- Don't leave the burden of making decisions to the surviving spouse or next generation.
- Communicate! Be open about your wishes/goals.
- There's no time like today to start . . .
- Talk to your kids, spouse, parents, grandparents!

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# Questions . . .



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