

Turning 60?

If you are approaching your golden years, this farm and ranch transition specialist wants to share his expertise.

by *Kindra Gordon*

Turning 60 is a milestone, but it's also a time to ask some poignant questions about your farm or ranch business, says Dave Goeller.

Goeller is deputy director of the North Central Risk Management Education Center through the Department of Agricultural Economics at the University of Nebraska–Lincoln (UNL). In this role, Goeller has worked with hundreds of farmers and ranchers around the globe on succession planning.

Adding to his credentials are Goeller's own personal experiences: He operates a corn and soybean farm with his brother in Nebraska, and within the past year he turned 60. Of his milestone birthday, Goeller says, "I feel a different perspective. My attitude toward risk has changed a lot. As we get older, that happens."

Recognizing that this changing perspective begins to happen with age, Goeller advises farm and ranch operators approaching their late 50s and early 60s to consider their succession plan for the next generation.

Understanding the business life cycle

Here's why: Goeller explains that every business has a life cycle pattern that follows a bell-shaped curve. The business life cycle

begins with the introduction phase, followed by a growth phase, maturity phase and finally a declining or divesting phase. The maturity phase often coincides with owners reaching their 60s and becoming less prone to taking risks. As a result, if the business is not passed to a new generation that has new ideas and is willing to take risks, the business life cycle tends to enter a stage of decline.

"Typically risks help produce rewards within the business," Goeller says. "So, if the owner is not taking risks anymore, the business stops growing."

Thus, the big question 60-year-old farm and ranch business owners need to be asking themselves is: "What's going to happen to my business?" Goeller says. "If you wait and do it when you are in the decline phase of your business, it's harder."

To facilitate the succession-planning process, Goeller says these questions should be considered:

- ▶ Are the parents ready for a partner?
- ▶ How committed is the identified successor to farming?
- ▶ Is the business large enough?
- ▶ Do you have a common vision of your future together?
- ▶ Can you live and work together?
- ▶ Are the non-farming children supportive?

Strategies to consider

As you ponder the above questions, recognize that estate and succession planning can take many forms, and requires expert assistance from financial planners, accountants or lawyers. Visiting with these experts can help identify strategies that may be suitable for your operation.

Goeller notes that often a concern with succession planning is balancing compensations between the on-farm heir and off-farm heirs.

In these situations, he emphasizes that sometimes compensation and contributions may not be equal, but they can still be fair (see example in sidebar). Goeller says, "Some individuals contribute differently to the success of the business than others."

With that said, he notes there are tools available to help compensate off-farm heirs while still ensuring the transfer of the business to the on-farm heir. Examples to consider include:

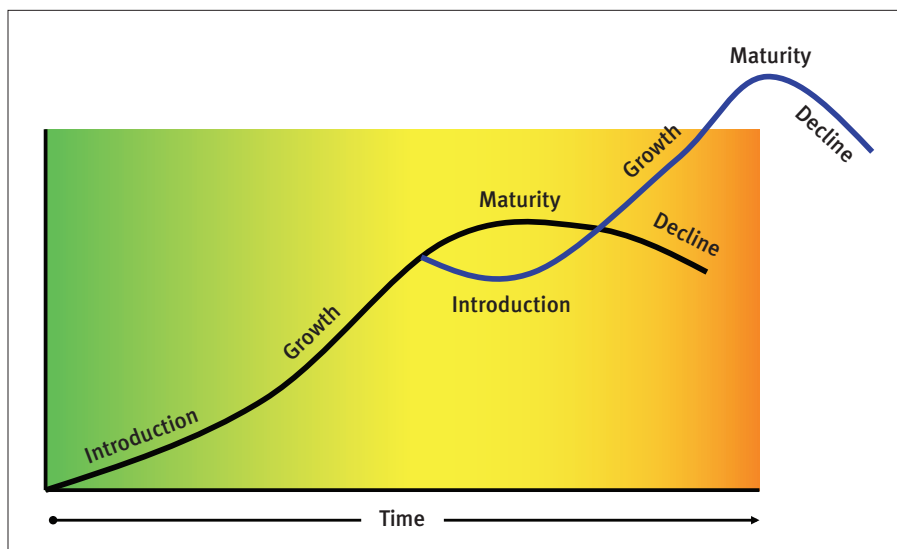
Life insurance. Goeller suggests, "If affordable, life insurance can be purchased for off-farm heirs. The on-farm heir would purchase life insurance on the parents' lives, and then could tap that income for buying out the siblings' interest portion of the assets."

Partnership, LLC, corporation. With this arrangement, the on-farm heir controls/manages the operation — while all siblings share in ownership. The important thing is that the operating entity is owned by the on-farm heir, and the land equity is owned by all heirs, Goeller points out.

Shared appreciation agreement. Parents could also establish an agreement so that after they are gone, if the on-farm heir sells the real estate within a period of time, off-farm heirs share in the appreciation.

Long-term leases. Goeller says lease agreements could also be considered with various options. Some might include: the on-farm heir has a right to farm the non-farm heirs' land for a period of time; perhaps siblings have the right to receive rent payments for a certain period of years, as the on-farm heir purchases the property, the on-farm heir has the right to buy out siblings for a period of time at a determined value, or if a sibling decides to sell their land, the on-farm heir has the right of first refusal.

Fig. 1: Business life cycle



Source: Wadsworth.

Be proactive

Goeller emphasizes that the time you devote to planning and making decisions will influence whether you have an estate plan that simply passes assets to heirs, or whether you develop a transfer plan that enables the next generation to continue operating a viable farm or ranch business, while also

considering your own retirement needs.

He adds that to ensure a business has the opportunity to succeed in the next generation, it will also require training and commitment. Goeller states, “You as the owner know your business better than anyone; you are the expert.”

He uses the analogy of teaching a child

to swim, asking, “Would you just throw the child in the pool, or teach them step-by-step?”



Editor’s Note: To access Goeller’s PowerPoint, audio of his presentation and video interview at the 2011 Range Beef Cow Symposium, visit the newsroom at www.rangebeefcow.com.

Fair vs. equal: Jimmy’s story

Accounting for multiple heirs in a farm or ranch operation and their contribution to its value can be a challenging thing to determine, acknowledges University of Nebraska’s Dave Goeller.

“One of the most difficult decisions owners of a farm and ranch business confront occurs when one heir returns to the family business, while he or she has siblings that do not,” states Goeller. The difficulty arises because the farming heir will many times make contributions to the success of the business that are not equaled by their siblings. So, how should that individual be compensated?

Goeller suggests that you can pay that child as they contribute, or you might provide a ‘sweetheart’ rental rate of some of the farm/ranch assets or the use of machinery or pasture at a reduced rate to help compensate.

If a method such as this is not used, then you might consider using an estate plan as a tool to compensate the heir that has contributed to the success and growth of the business.

Here is one example of an estate plan to demonstrate that fair may not always mean equal:

Jimmy was one of three siblings. He returned to the ranch to work full-time in 1990. The other two siblings built careers elsewhere. At that time, the value of ranch assets was \$300,000. Split three ways, that would mean an inheritance of \$100,000 for each sibling.

But, in the years since then, the ranch assets have increased by \$3 million to total \$3.3 million. Should each sibling receive \$1.1 million?

Goeller suggests tailoring the estate plan to compensate Jimmy for his contribution to the ranch’s growth. In this case, the parents decide he was responsible for 50% of the ranch’s growth since 1990, with the parents responsible for the other half.

To calculate their plan, they first consider the one-third of the asset value when Jimmy came into the business, or \$100,000. Then they consider Jimmy’s 50% contribution to the \$3 million in asset growth, or \$1.5 million. Finally, they allocate Jimmy one-third of the parent’s 50% share of that \$3 million, meaning another \$500,000.

In this scenario, Jimmy receives an inheritance of \$100,000 plus \$1,500,000 plus \$500,000, totaling \$2,100,000. The other two siblings each receive \$100,000 plus \$500,000 for a total of \$600,000.

Goeller explains that the division of assets is not equal, but is deemed “fair” based on Jimmy’s contribution to the ranch’s value and allows him to keep the ranch in operation.

View an article by Dave Goeller on this topic by visiting <http://agecon.unl.edu/cornhuskereconomics/2011> and select *Does Contribution Equal Compensation?*