Stuck in the Middle

It takes more than an estate plan to compensate the Sandwich Generation.

*Story & photos by **Troy Smith,** field editor*

It's a sad story. It's the true tale of a 68-year-old farmer who was concerned about the transition of management and ownership of his family's operation. The story stems from an actual conversation between this man, whom we'll call "Joe," and University of Nebraska Department of Agricultural Economics Transition Specialist David Goeller. Wanting a professional opinion, the farmer had turned to Goeller, a veteran educator and consultant in farm/ranch business succession.

According to Goeller, Joe asked about the appropriate age at which a son should be allowed to share management duties with his father. Goeller wanted to know how old Joe's son was. The farmer explained that he really wasn't talking about his son. Joe was talking about himself and his 90-year-old father.

It seems that Joe's dad held tightly to the reins of farm management. So absolute was the old gent's authority that neither Joe nor Joe's 30-something son were allowed to make any management decisions. Every morning, each of them waited until Grandpa issued their individual work assignments for the day.

A familiar story

Sound like an isolated case — a rare occurrence? Goeller says this story is about as extreme as it gets, but he has talked with plenty of farmers and ranchers whose situations were not much better. They, like Joe, represent what some people call the "Sandwich Generation." These are people raised on the farm or ranch who stayed or returned to work family operations with their parents. Now, they also have grown children who are involved, or want to be. Joe and others like him may not know where they stand. They may not know how or if the family "business" will survive after the controlling parent dies or is unable to continue in a management role. Will the next generation be prepared to assume that role?

Goeller believes members of the Sandwich Generation need to know what will happen next. Do the parents expect the family farm/ranch business to continue? Have they initiated any planning that will enhance opportunity for the business to continue? Or is their plan (or failure to plan) more likely to hasten its demise?

As it turned out, Joe would never get a chance to manage the farm. At the time of their initial conversation, Joe could not answer Goeller's questions about Grandpa's estate plan. The family just didn't talk about

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►Transitioning a farm/ranch business from one generation to another involves more than transferring assets. It also involves the transfer of knowledge, skills and accountability, says David Goeller, a transition specialist at the University of Nebraska.

Contribution equals compensation

Mom and Pop Jones welcomed their youngest child, Jim, into their farm business in 1990 after Jim's two older siblings had chosen careers outside of agriculture. When Jim joined the operation, Mom and Pop Jones valued their estate at $300,000. At that point, they figured each child had contributed equally, throughout their growing years. If Mom and Pop had passed away in 1990, each child would have received an equal share of the estate, or $100,000.

"But look at what happened during the next 20 years," says David Goeller, University of Nebraska Department of Agricultural Economics transition specialist.

Goeller explains that young Jim was paid a rather low wage, but because of his wife's off-farm job, they have been able to get by. Jim encouraged his dad to purchase farm acreage and to add a cow-calf enterprise, for which Jim took management responsibility. Expansion efforts were profitable because of Jim's commitment to the operation. In recent years, Jim has assumed the primary management role for the entire farm.

Now, 20 years later, Mom and Pop Jones are trying to structure an estate plan. Their estate's value is now $3,300,000, increasing by $3,000,000 since Jim joined the operation. Would it be fair to divide the estate equally between Jim and his two siblings, giving $1,100,000 to each?

Mom and Pop recognize that Jim's input, in labor and uncompensated management, has contributed significantly to the operation's growth. After careful consideration, they decide that Jim was responsible for 50% of the business growth occurring during the 20 years.

"As the Joneses calculate how to make a plan that accounts for Jim's contribution, they first consider the one-third of the asset value of their estate when Jim first came into the farming business, which is one-third of $300,000, or $100,000," says Goeller.

"They also consider Jim's 50% contribution to the growth, appreciation and profit reinvestment of the business since joining the operation. Fifty percent of $3,000,000 is $1,500,000. Finally, they consider a one-third share of their own 50% contribution to the growth of the business. One-third of $1,500,000 equals $500,000," Goeller further explains.

Thus, Jim's inheritance is as follows:

1/3 share of 1990 net worth	$ 100,000
1/2 of net worth due to business growth	$1,500,000
1/3 share of value of parents' contribution to business growth	$ 500,000
	$2,100,000

Each of Jim's siblings receives a one-third share of the estate's 1990 value ($100,000), plus a one-third share of the value of their parents' contribution to business growth ($500,000). Each sibling receives an inheritance of $600,000.

The distribution of assets is not equal, but Mom and Pop Jones think it is fair, because it compensates Jim's contribution to the operation.

that kind of thing. If they had, Joe might have foreseen the problems that lay ahead.

When Joe finally pressed for an answer, Grandpa said he planned to divide all farm assets equally among his eight children. That meant that after working the operation for more than 50 years, while receiving meager pay and a substandard house to live in, Joe would receive one-eighth of the farm. A one-eighth share would go to each of Joe's seven siblings, none of whom had spent a single day working the place since leaving home.

Since he went to work for the operation, Joe's son also had received a low wage and relatively poor housing. After hearing about the estate plan, and seeing no future for him on the family farm, the young man found a higher-paying job. Ultimately, he found a measure of security and improved quality of life.

It wasn't long until Grandpa died, and Joe did inherit one-eighth of the farm. However, he was unable to secure financing to buy out his siblings and continue the operation. Ultimately, all of the farm was sold to a neighbor — one of the county's largest landowners. Subsequently, most of Joe's inheritance went toward hospital and doctor bills associated with his wife's illness. The couple moved into subsidized housing, living on their social security benefits.

Fairness or equality?

Was Joe treated fairly? He and his siblings were treated equally, but is equal fair? According to Goeller, the most unfair thing you can do may be to treat unequals equally. In his more than 50 years of involvement, didn't Joe contribute to the building of the farming business? If so, shouldn't his contribution have been worthy of compensation?

Certainly, says Goeller, Joe's dad had the legal right to determine how his estate would be divided. The "golden rule" applies in such matters, which means the person with the gold gets to make the rules. Determining the dispensation of land or other assets is the right of the owner of a farm, ranch or any business. However, by distributing equal shares to his heirs, Grandpa did not acknowledge Joe's contribution. Grandpa's decision also allowed little chance for the family farming business to continue after his death. Perhaps that wasn't important to him.

In Goeller's experience, however, most farmers and ranchers hope their children will be interested in the family operation. They want to build businesses that can be passed on to the next generation. However, making that happen as smoothly as possible requires planning, the long-term kind of planning that too many people put off until it is too late. Goeller says a business succession plan, retirement considerations for the senior generation and an estate plan form the "three-legged stool" of harmonious transition of a farm or ranch business.

"You have to wonder, though" says Goeller. "What are the chances that Joe or his son would have had the management skills required to profitably operate the farm business after the grandfather's death?"

Suppose that Joe had received a greater share of the farm, as fair recognition of his contribution to the operation. Suppose that Joe had received sufficient assets, whether land, livestock, equipment or money, that were required to continue a viable operation. Joe may not have been prepared to run it. Never having made any management decisions prior to his father's death, Joe probably lacked the managerial expertise.

According to Goeller, transitioning a farm/ranch business from one generation to another involves more than transferring assets. It also involves the transfer of knowledge, skills and accountability.

"The transfer of management responsibility is the key to most successful succession plans. It is not an event; it is a process, and you cannot start the process too soon," says Goeller. "It can be difficult for the senior generation to give it up, but it is better for the business when management is transferred voluntarily with a plan, rather than giving it up by default."

Goeller says a succession plan should require that the senior generation retire from management. That doesn't mean Grandpa has to stop working. He can work all day, every day if he wants to. He can be available in an advisory or consulting capacity, too, when asked, but Grandpa needs to step away from decision-making.

Unfortunately, a crucial skill that many farmers and ranchers lack is communication. This can hinder the transfer of managerial ability and the ultimate goal of developing a management successor to lead the business forward. Communication is essential for the senior generation to perform as mentor, teacher and coach before eventually relinquishing decision-making authority to the successor.

Often, members of the Sandwich Generation find themselves in the position of initiating communication. Goeller urges them to find ways to start the discussion between generations, and include all actively involved parties, including spouses. It is important that, early on, discussions focus on revealing the expectations of all parties. A succession plan based on assumptions, which may be false, is not much of a plan.

Equal or fair

When creating an estate plan designed to treat heirs fairly, University of Nebraska Department of Agricultural Economics Transition Specialist David Goeller reminds farmers and ranchers that equal treatment may not be fair. Indeed dividing the farm or ranch assets equally among farming and non-farming heirs may be grossly unfair to farming heirs that invested time, labor and resources toward the family operation.

A farming heir may have been compensated through cash payments for added labor or management, or through a "sweetheart deal," such as reduced rent on land or free use of machinery. If a farming heir's contributions to the family operation have not been fairly compensated otherwise, Goeller believes addressing them through the estate plan is appropriate.

If an estate plan divides farm/ranch real estate equally among heirs, non-farming heirs may want to "cash in" their shares. If a farming heir is unable to swing the purchase of non-farming heirs' shares, the future of the operation is then jeopardized.

Goeller says this kind of situation might be avoided if non-farming heirs received assets not crucial to the continued operation of the farm/ranch business. Such assets might include cash, unrelated real estate, life insurance policies, stocks, bonds or other investments.

Editor's Note: *Troy Smith is a freelance writer and cattleman from Sargent, Neb.*