Transition Tips

Are you putting your farm or ranch at risk by not developing a transition plan?

*by **Kindra Gordon,** field editor*

Risk has always been a part of agriculture. While fluctuations in market prices may be the first thing to pop in our minds when thinking of risk in agriculture, Joe Hawbaker and Dave Goeller would like farm and ranch families to consider another risk to their business — ignoring estate or transition planning.

Goeller is a transition specialist with the University of Nebraska Extension. He also operates a grain farm in Nebraska with his family. Hawbaker is a Nebraska-based farm and ranch attorney.

The duo hosted several workshops on the topic of estate-transfer planning this past summer, and here are some of their nuggets of advice.

Key question

Goeller points out that there is one key question all farm and ranch families must ask themselves: Do you want a successor to your business?

He notes that with death, assets will be transferred to heirs. That's inevitable, with or without planning. However, will there be a successor who is trained and able to operate the business? That's something that must be planned.

Goeller says, "A business can pass from one generation to the next without planning, but if you want to improve the odds, make a plan."

Goeller says a special "golden rule" applies: "The person with the gold gets to decide what to do." With that said, he acknowledges that passing decision-making authority to someone else — especially when you are still capable — is a hard thing to do, especially for men.

He shares this advice: "If you want the next generation to have a chance to succeed as a manager of the business, you need to allow them to make management decisions." He provides this analogy: Are you going to throw them into the deep end of the pool and see if they can swim? Or are you going to give them a chance to start in the shallow end and take time to teach them to manage and have a plan?

Three-legged stool

Goeller and Hawbaker point out that

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Additional advice

Nebraska's Dave Goeller and Joe Hawbaker offer a few more ideas to take into consideration as you ponder a transition plan for your family business.

- A successor may not be a family member. Goeller has three adult children, but none of them wanted to return to the family farm. Rather than see their family farm absorbed by a large landowner, he wanted to create an opportunity for a beginning farmer. He found two brothers, ages 22 and 25, who are now renting his farmland.
- The older generation and younger generation may have different attitudes toward risk, as well as toward family time vs. work time. These are things that need to be recognized, communicated and respected. As one example, Goeller notes that older generations tend to become more conservative, while the incoming generation may be willing to take on risk. He advises: If the younger generation wants to grow the business, let them take the risk, as opposed to co-signing for debt.
- How to compensate non-farm heirs tends to be one of the hardest decisions the older generation struggles with, because they want to treat people fairly, say Goeller and Hawbaker. While that is admirable, Goeller says, "The heir who is on the farm or ranch working and gives contribution needs to be recognized. You need to think about who has contributed to the success of the business, and equal may not be fair." He also notes that life insurance may be a useful tool to compensate off-farm heirs.
- Disability insurance and long-term care insurance are important to consider for the older generation.
- Holding regular business meetings can be beneficial to ensure that communication occurs and that progress on establishing and implementing a transition plan is made.

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transition planning should include three components:

1) A retirement plan, which includes how you will spend your time, where your income will come from and transferring decision-making authority to a successor;
2) A business succession plan, which includes transfer of management; and
3) An estate plan, which includes an asset transfer plan.

Goeller says if your transition plan fails to include the estate plan and actual transfer of assets, the business may not successfully pass to the next generation. He also emphasizes that the relationship should be viewed as a business and partner role as opposed to a parent and child role.

Goeller also suggests that a three-phase approach may be a good timeline for the transfer process. The first few years, the owner would discuss management with the incoming generation, but make most decisions. The second few years, the owner and successor would make decisions together. During the remaining few years, the successor would make the decisions, but the older generation would be available as a resource. This timeline should be agreed upon in writing at the start of the first phase.

Recognize barriers

One of the primary obstacles to transition planning is simply communication. Often families don't talk about it because they aren't sure what kind of plan to put in place. As a starting point, Goeller and Hawbaker advise that the older generation think about — and discuss — what goals they have for retirement.

Goeller shares, "Don't retire from something, retire to something. Think about what retirement looks like — what are you going to do?"

One activity he frequently does with clients is to have them draw a picture of what they see themselves doing. He adds, "If you haven't thought about it, then you probably won't do it."

In addition to that key question of "who" will be the successor to the business, other factors to consider include your timeline for farm involvement, from where your retirement income will come, where you will live, how you will account for non-farm heirs, and what you will do.

When it comes to actually developing an estate plan, Hawbaker says a cardinal rule is to keep the plan flexible — revocable. He points out that life changes, people change and circumstances change, and says, "Don't do something irrevocable that you can no longer change."

He also advises that once you know "who" will be named in your estate, you must also determine "what" is your estate, "how" will you transfer it, and "when" will you transfer it.

Hawbaker says there are three basic ways to transfer an estate: through titling, a will or a trust.

Another common question: Should heirs know what you plan? Hawbaker says yes. "Let them know why you are planning what you are planning. It can head off worse conflicts down the road." AJ

Editor's Note: *Kindra Gordon is a cattlewoman and freelance writer from Whitewood, S.D.*