FARM TRANSITION AND FARM SUCCESSION PLANNING
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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
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