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Factors Influencing Generational Transfers of Farm/Ranch Assets

Dave Goeller, University of Nebraska

Introduction

The University of Nebraska began educating farmers and ranchers in the area of farm business succession planning over 25 years ago. During that period over 1,000 Nebraska farming businesses have received assistance transferring their farm business from one generation to the next. Early efforts focused on the farm financial aspects of the transition process, however, because of farmer evaluations, educational efforts have shifted focus to communication skills and the importance of the business succession planning process.

Trends in United States agriculture over the past 25 years indicate the importance of farm business succession planning and the urgency created by increased concentration of land ownership in fewer and older hands. According to the U.S. Agricultural Census taken by the National Agricultural Statistics Service, the average age of U.S. farm operators has increased from 50.5 in 1982 to 57.1 in 2007 (United States Department of Agriculture 2009). While the number of total farm operators has only decreased by 36,184 or 1.6%, operators over the age of 65 have increased by 256,058 or 64%. Therefore, the over 65 age group as a percentage of all operators has increased from 17.8% in 1982 to 29.7% in 2007 (United States Department of Agriculture 2009). During this same time period there were 237,533 or 66.7% fewer farm operators under the age of 35, which, as a percentage of all operators, indicates operators who are under 35 years of age have decreased from 15.9% in 1982 to 5.4% in 2007 (United States Department of Agriculture 2009).

Dr. Michael Duffy, Director of the Beginning Farmer Center at Iowa State University, has researched the concentration of Iowa land ownership by those 65 years of age and older. His data, published in "Farm Succession in Iowans", 2000 indicates land owned by those 65 and older has steadily increased from 12% in 1920 to over 55% 2007. Similar trends have occurred throughout much of the Midwest United States.

There are several barriers preventing younger people from entering production agriculture in the U.S. including the high capital costs of land, machinery and other farm assets, the increased mechanization of farming, U.S. tax policy, tight profit margins for many sectors of agriculture, ease of operation of modern farm equipment, pride of ownership, love of the land, the "no one can do it as well as I can" attitude of current farm business owners, deficiency in communication skills, lack of retirement planning by the current farm operators, and lack of planning for a successor (Ahearn 2009) Although many barriers exist, interest from younger "want to be" farmers remains high. Many U.S. states have linking services that match farm owners with prospective successors, e.g. *International Farm Transaction Network: Fostering the next generation of farmers* at: http://www.farmtransition.org/ and the *Center for Rural Affairs Land Link program*. at: http://www.cfra.org/resources/beginning_farmer/land_link , and all linking programs indicate the number of younger potential farmers is several times larger than the number of older farm owners willing to participate in the linking programs.

A farm/ranch business is more than only the farm assets. The farm business includes people, the assets and liabilities of the farm business finances, the day-to-day operation, the marketing and purchasing as well as the labor, management and decision making aspects. Owners of a farm business make either a conscious or an unconscious decision regarding whether or not to actively pursue a successor for their business. Many farmers do not consciously consider the question, "Do I want my farming business to continue after I am gone?" They simply go on day after day doing their work as best they know how. One day simply turns into the next which turns into a week, and then a month and eventually fifty years have gone by and the question is asked, "Where has all the time gone?" Without thoughtful planning for succession, the unintended consequence is that there are fewer and fewer young farmers entering the business and ownership of land becomes concentrated into fewer and older hands.

If a generational transfer of a farm business is to take place it usually takes effort and planning. Bringing a successor into any business is a process not an event. It requires time, thoughtful discussion, and planning. Transition typically does not happen automatically. To begin the planning process, considering the following questions will help to establish some topics for discussion:

Questions for the owner generation: Do you want your farming/ranching business to continue beyond your life? Is it important to keep the farm in the family? Do you want to have a successor? Have you identified a successor? Is the successor one of your heirs? Will you retire? If you retire where will you live? How will you spend your time in retirement? What kind of lifestyle do you expect in retirement? How much money will you need to support that lifestyle? What will be the source of your income? When will you retire?

What are your expectations regarding: The younger generation's income? The younger generation's vacation? The beginning and ending of the work day?

Do you have a viable business? What assets and liabilities make up the farm business? What is the profit history of your farm business?

Questions for the successor generation: What are your expectations regarding: Your income? Your vacations? Your lifestyle? Your health insurance? The beginning and ending of the work day?

What resources do you bring to the business? Skills? Experience? Assets? Desire? Work ethic?

Which of your skills needs improvement? Analytical expertise? Farm financial management? Risk management? Production/enterprise skills? Communication skills?

The generational transfer plan of a farm business can be thought of as a three legged stool. The three key elements need to be interdependent so they complement each other rather than conflict. The three legs are a retirement plan, an estate plan and a business succession plan. Each leg is needed to support the successful farm business transition from one generation to the next.

The Retirement Plan

Lack of good retirement planning has become a major barrier to farm business succession. For many small business owners, and especially for farmers and ranchers, the business is the key source for retirement income when or if retirement occurs (Lobley and Errington, 2002). The land in essence becomes the 401K plan with farmers using the land as an investment portfolio to be sold upon retirement. Further, the reliance on the farm assets creates an uncertainty regarding the adequacy of retirement income. No one knows the answer to the question, how long will we live? It is very tempting for farmers to just keep on farming. Most enjoy their work and, with modern farm equipment, it has become very comfortable for most farmers to simply farm for one more year. Certainly no one should tell farmers they must retire. It is their business. They have worked hard for it, and they should do as they see fit. There are consequences, though, if a farmer continues farming until death; the likelihood of a younger operator stepping in and continuing the farm business is not high. Odds are at the death or disability of the older farmer, if a successor has not been identified, the family will either rent or sell the property to the highest bidder. Most of the time the highest bidder will be a large established farmer that will likely absorb this farm into their own. The unintended consequence of not planning to retire is there will be one less family living in the community, one less family attending churches and sending children to the local schools, and one less family buying goods and services from the local business. The unintended consequence is a less vital and vibrant community. A good retirement plan should address the approximate date for retirement, sources of retirement income and retirement activities.

The Estate Plan

The first question owners of agricultural assets need to consider when doing estate planning is: "Do you want your farming business to continue on beyond your lifetime?" If the answer is no, then simply decide who you want to leave your assets to, when you want to leave it to them, and how long you would like to exert control over those assets. Go to your attorney and draw up your estate plan. If on the other hand the answer to the question is, "Yes, I do want my business to continue on," then you must consider who will be the successor to the business? If the successor is an heir, will that heir be treated differently than the other heirs? Will the farm assets be passed down in a financially viable unit or will they be cut into pieces and divided up like a pie?

We will all die eventually, and, in the case of farm owners, at the time of death their farm assets will pass down to their heirs. It is possible for an heir to take over an operation without previous involvement and still become successful, but one can greatly increase the probability of success if the owner plans for a successor.

One of the most difficult decisions for farm families to make is the one regarding asset distribution in their estate plan. Most of us love all our children, but we know that as they were growing up, they were not treated exactly the same. If one child needed to have an appendix operation we didn't rush all the kids to the doctor to keep things even. Each was probably given what they needed, when they needed it, to the best of our abilities. However, many of us have a preconceived notion that if there are five children in the family the estate plan should divide all assets five equal ways.

The following is a recap of an actual conversation with a 68 year old rancher in Nebraska named Joe.

> After a rather lengthy conversation with an older farmer discussing the importance of the successor generation gaining experience in management and decision making, the 68 year old farmer named Joe asked this question, "You're the expert; at what age do you think a father should start sharing management duties with his son?" "Well, Joe, how old is your son?" I asked. "Ah, my son is 39 years old, but I wasn't asking about my son, I was asking about my father."
>
> The father/grandfather in this family was 90 years old, and he had maintained complete control of all management and decision making authority. Joe then spoke about their typical day. He said, "Each morning my son and I drive over to my dad's house and wait in the farm yard in our pickup truck until Dad has finished his breakfast. He then leaves the house and walks over to us and explains what we are to do for the day. For example he looks at me and says, "OK you go feed the cows." and to my son, "and you go rake hay." He tells us what to do and when to do it."
>
> What are the chances that someday when the 90 year old father/grandfather dies that Joe or his 39 year old son will have the management skills required to profitably operate a modern farm business?

> After some further discussion, I asked "What is your father's estate plan?" Joe replied, "Well I really can't say. We have never discussed it. We don't talk about stuff like that much." A few months later on a return visit, the topic of the estate plan came up. He said, "Dave, I have some bad news. I asked my Dad about his estate plan, and he told me that he plans to divide all of his assets equally between my seven brothers and sisters and myself. So I will get 1/8 of the farm just like each of my siblings who have not spent a single day working on this place since they left home." He had worked on that farm for over 50 years. He was paid a very low wage and given a sub-standard house to live in plus a half a beef per year.

This true story does not have a very happy ending. The 39 year old son, who was also being paid a very meager wage and a half a beef per year, left the operation shortly after discovering the facts of the estate plan. He has acquired a good job and is doing quite well however, Joe did inherit only 1/8 of the ranch at the death of his father. He tried to acquire financing to buy out his brothers and sisters but was unable to do so. The ranch was sold to the highest bidder who happened to be a large landowner in the county. Joe and his wife have unfortunately had to spend most of their inheritance on hospital and doctor bills because of health issues. They currently reside in a low income public housing project in a small Nebraska town and are living on their social security benefits.

Was Joe treated fairly? He was certainly treated equally. It has been said, "The most unfair thing you can do is to treat un-equals, equally." Shouldn't the compensation be comparable to the contribution? Should farming heirs who helped build the farming business, contributing 50 years of their lives living on a sub-standard wage, be treated equally with their seven siblings, who only show up for Christmas and the funeral, be treated equally? Is equal fair?

This true account of one family's situation illustrates the need to develop some way to value the farming heir's contribution to the business. This concept is "Contribution Should Equal Compensation".

Let's take a look at another family. Let's call this family the Jones. The Jones' have three children. The youngest of the three children is Jimmy. He has decided to come back to the farm. The other two siblings chose not to be involved in the family business and have chosen professions outside of agriculture and moved to neighboring states. Jimmy came back into the farming business in 1990. At the time of his return mother and father Jones valued their estate at $300,000. They felt all children had contributed equally throughout their growing years so at the time of Jimmy's return to the farming business, Dad and Mom feel equal would have been fair. If they had passed away in 1990 each child would have received $100,000. Twenty some years later much has changed. Jimmy has been compensated with a somewhat low wage, but, because his wife works away from the farm, they have been able to get by. His contributions have been significant. Jimmy encouraged Dad to buy the neighboring farm across the road when it came up for sale. If Jimmy had not come back to farm, Dad would not have been able to handle the additional work. Because of Jimmy, Dad purchased the additional farm. It has appreciated in value significantly since that time. Jimmy was also responsible for introducing a beef cow enterprise to the farm and has been largely responsible for the genetic selection that has lead to improved profits for the beef herd. Jimmy has taken over much of the management and decision making the past several years. Dad and Mom still receive significant income from the farming business and will need to continue to do so as they have not developed other retirement strategies.

Today Mr. and Mrs. Jones are considering how to structure their estate plan. Their estate has grown from $300,000 to $3,300,000. The business growth since Jimmy's return is $3,000,000. The question they are considering is, "How much of that appreciation, reinvestment of profits, growth and success has been due to the fact that Jimmy came back to the farm in 1990?" Mrs. Jones reminds her husband that they probably would not have purchased the additional land had Jimmy not returned to the business. In fact, they may have needed to sell some of the original land to help support income needs in their older years. Jimmy has also had a huge impact on the beef enterprise. It has contributed significantly to the overall profitability of the business. Without Jimmy's input in both labor and, more recently, management of the farming business, the current size of Mr. and Mrs. Jones' estate would undoubtedly be much less. After careful thought and consideration Dad and Mom decided that Jimmy was responsible for 50% of the business growth, and Dad and Mom were responsible for 50%.

As the Jones calculate how to make a plan that accounts for Jimmy's contribution they first consider the 1/3 of the asset value of their estate when Jimmy came into the farming business; 1/3 of $300,000 is $100,000. They then consider Jimmy's 50% contribution to the growth, appreciation and profit reinvestment of the business since his return; 50% of $3,000,000 is $1,500,000. Finally, they consider 1/3 of the 50% contributed to the business by Dad and Mom; 1/3 of $1,500,000 equals $500,000. Thus, Jimmy will receive an inheritance of $100,000 + $1,500,000 + $500,000 = $2,100,000, while his siblings will receive $100,000 + $500,000 = $600,000. This is certainly not equal, but, based on their situation, the Jones feel it is fair. Contribution equals Compensation.

A farming estate plan must also account for the fact that the returned earnings of U.S. farm assets are not traditionally very attractive to non-farming heirs. Because asset values, especially farm land, have increased rather dramatically in the last 20 years, the value of many farm estates is relatively high. The earnings those farm assets can produce, however, is modest. The problem arises when non-farming heirs try to stay in business with farming heirs. The income return non-farming heirs will receive on their farming inheritance will not be comparable to many non-farm investments without capturing asset appreciation through the sale of the farm assets. If possible, it may be better to provide an inheritance for non-farming heirs from assets that are not crucial to the continued success of the farm business. Leaving non-farming heirs non-farm assets such as life insurance, houses, stocks, bonds or other non-farm investments will not jeopardize the continuation of the farming business.

The Business Succession Plan

Good communication skills are vital to creating and executing a viable farm business succession plan. Transitioning a farm business from one generation to another involves much more than simply transferring ownership of the farm assets. It involves passing on the skills and knowledge the owner has acquired over time and the ability to manage the farm business profitably. A crucial skill that many farmers lack is the skill of communication. The process of developing a successor requires many hours of discussion between the generations. It should include all actively involved parties, especially spouses. A key element that needs to be established is the expectations of each generation. If expectations are not discussed and revealed, future problems are very likely to erupt. A simple, useful exercise is to ask each individual to write a sentence or two briefly describing his/her personal response to the 12 questions regarding his/her individual expectations concerning the farm business succession process.

Expectations to consider: What time does the work day begin and end? What about noon hour? Will there be a vacation? What about weekends? What are the expectations regarding life style? How much income is needed by the successors? Family living expenses vary tremendously from family to family. If a successor has the expectation that they will need $60,000/year to provide family living expenses, where will that come from? The owners also have expectations regarding family living. If they are expecting that a portion of their living expenses will come from operations of the farm business, will the income be adequate to provide two family livings? How long will the transition period last? Does the older generation plan to retire? If so, what is your vision of retirement? Will the owners eventually move from the farm and, if so, where to? Do the owners desire to continue involvement in the business after retirement? If so, how will that look?

All parties to the farm business succession, including spouses, should discuss their expectations. Where expectations differ, the ensuing discussion can provide an opportunity to develop joint problem solving and communication skills that will be essential to an effective generational farm business transition. If disagreements can be resolved civilly to the satisfaction of both parties, the development of agreements can begin.

A proven business succession planning model is available at http://www.extension.iastate.edu/agdm/wholefarm/html/c4-10.html, Don Hofstrand. This was developed over the past two decades by Iowa State University and the University of Nebraska, and it considers the typical farm business to be composed of labor, income, management and asset ownership. Each of these business components will need to be transferred from one generation to the next. Because the transferring of business components may be difficult to reverse, it is suggested transferring occur in phases. This model involves four phases of transition: the testing phase, the commitment phase, the established phase, and the withdrawal phase.

The Testing Phase

The testing phase can be thought of much like dating. It is a trial period designed to explore compatibility of the parties and to determine if going forward with a business partner relationship is desirable. It is particularly important, if the successor is also the owner's child, for the owner to make a conscious effort to develop a business partner attitude and relationship with the successor as opposed to a parent/child relationship. A proven approach has been for the parent to consider an attitude shift from one in authority, to one as a mentor, coach or teacher, instructing and guiding, but allowing for mistakes to occur. Developing a successor that will continue your legacy can be hard work but most feel it is worth it.

In the testing phase a detailed outline of labor duties should be discussed. A clear job description should be agreed upon. During the testing phase it is often desirable to simply create a wage arrangement to provide income to the potential successor as opposed to making any long term arrangements that may be difficult to undo should the business succession process be terminated.

Management is probably the most difficult business component to transition from one generation to the next. Giving up managerial control of the farm business is a very difficult thing for most owners therefore; creating a management transfer plan is critical. Most farm business succession plans will not transfer any management during the testing phase. Creating opportunities to allow the successor some insight as to how management decisions are made will be very helpful as the process continues.

There, also, should not be any transfer of farm business assets during the testing phase. It can be very expensive to reverse asset transfer because of tax consequences and the potential for legal battles, if the succession plan is abandoned, is heightened.

Length of the testing phase should be relatively short. One to two years is typical. A predetermined meeting date should be chosen to mutually evaluate the possibility of moving to the next phase. If, after meeting, all parties agree they would like to continue, they then each make a commitment to proceed.

The Commitment Phase

During the commitment phase both generations make the decision that the testing phase has been completed, and they each choose to move forward. The younger generation makes the commitment that they plan to make this farm their way of life. The owner generation makes the commitment that they desire the business to continue and commits to the process.

The commitment phase will challenge communication skills for both generations. One method that has proven effective to enable communication is to have regular farm meetings. One of the first items that must be addressed early in the commitment phase is the type of joint farming arrangements to be pursued. All parties must identify which type of joint farming operation they want to create. There are two basic types of joint farming arrangements, a "spin off business" and a "super farm business".

Under a "spin off" type of arrangement, the size of the existing operation is not adequate to provide income for two families. The successors will begin to create their own business by renting additional land, developing a completely new enterprise or supplementing the farm income with a non-farm job. The owners of the original farming business will continue to operate their farm as they have in the past with the exception that they will share machinery and trade use of machinery to the successor for the contribution of labor from the younger party. consider developing a successor that will continue the legacy they have developed This arrangement will continue until the older party decides it is time for retirement at which time the younger party will take over both operations.

The "super farm" type of arrangement would best be described as a larger operation that has adequate income to provide for both families. Many times a larger "super farm" type has had hired employees that now can be replaced by the successor. The successor will be compensated with a wage, at first, followed up by an incentive arrangement with the option to rent additional land if desired. When the owner retires the successor assumes the operation of the farming business.

It is important to discuss both the type of joint farming arrangement as well as the duration of each of the three remaining phases during the early commitment meeting. Creating a timeline for each phase will provide security to the successor as well as a target date for the owner.

Income during the commitment phase should be derived at least in part from the success of the farm business. There can be a wage plus an incentive based on profits, yields or bench marks, or the successor may choose to begin an enterprise on their own. That could be renting some additional land or developing a companion venture.

Labor duties should be reviewed and modified as needed in the commitment phases. A clear description of all expectations should be reviewed and agreed upon.

A detailed management plan describing how management decisions will be made and who will be responsible to make them is critical. A good example of an effective management transfer plan can be illustrated by the plan a Nebraska family developed. The Howard family has their son James returning to the farm. They have a rather large operation and James will be replacing an employee. As they discussed management and management duties, they decided the remaining length of their farm business succession plan would be 15 years. For the first 5 years, Dad will continue to make all the management decisions, but when he goes to the bank to discuss financing, Dad will take James along to observe and learn. When Dad goes to the seed and fertilizer dealer, James will be included. When Mr. Howard markets their cattle, James will participate and make the needed business contacts so vital to the business. Dad will discuss with James how he makes the decisions and why he has chosen specific options. Dad will prepare James for success by sharing his years of valuable experience with his son. The second five year period Dad and James plan to make the management decisions together. They plan regular meetings to review alternatives and discuss management strategies. The last five year period James will be the primary management decision maker. Dad will still be involved in the business and will be available if James requires his assistance, but James will take the lead.

Success of the farm business is critically reliant on the management decisions. There is no room to allow self esteem or pride to interfere with development of a successful farm manager to continue the farm business.

Early in the commitment phase there needs to be an open and frank discussion regarding asset and liability values of the existing farm business as well as dialog addressing how and when asset ownership will be transferred. Both parties may choose to have ownership of farm assets begin to be transferred during the commitment phase. Discussion of farm business structures such as Limited Liability Companies, Corporations or Partnerships may be appropriate tools to consider at this juncture. Tax consequences as well as availability of income must be considered if asset transfer methods include sales or gifts. It is critically important to document and properly record all asset transfers. If new purchases for the farm business are to be made, it may be beneficial, if income will allow, to have the successor make the purchases as opposed to the older generation purchasing assets.

If the successor is a family member, this commitment phase may be a good time to inform other family members of the arrangements that have been created and commitments that have been made. Although there are no two families alike, surprises usually cause problems, especially when inheritance is involved. If the successor is a family member, make sure to record all agreements in writing as required by law. If the successor is not a family member, it is equally important to make an extra effort to insure all agreements are in writing and recorded as required.

Ownership of farm business assets may begin to transition to the younger generation during this phase. If ownership transfer is to occur, the types of assets that should be transferred first are the income producing assets, such as leases for rented land, operating inventory, breeding livestock or new purchases of machinery.

<u>The Established Phase</u>

At the beginning of the established phase, schedule a meeting to review the plans and timelines made during the commitment phase. There will need to be adjustments and changes as plans and reality are seldom identical twins. During the commitment phase the successor generation will have gained valuable experience and knowledge and should be well on their way to becoming the operator of a farm business.

During the established phase, income for the successor should come exclusively from the farm business. Wages and incentives can be replaced by farm business profits. There may be situations in which income did not equal projections and, in those situations, adjustments can be made.

At this time the successor will be providing a large share of the labor. In most situations the owner generation will still be providing some labor, however, it may not be at the same level as the successor. It may become necessary to consider adding additional employees to the farm business.

Management of the business is critical during all phases but it can be particularly tricky to pass the management from one generation to the next. Transition of management usually begins to occur during the established phase. It can be very difficult for owners as they watch their successors lead the business in a direction that may be different than they would have chosen. Typically, as people age they become more risk averse (Bucciol, 2007). If the successor makes management decisions that have the potential to expose farm assets to an increased level of risk, care should be taken to minimize exposure of the owner's assets. Taking risk may earn rewards. Likewise if rewards have been earned they should be a reward to the party exposed to the risks. Certainly the successors will make mistakes and, likely, different mistakes than the owner would have made. Owners need to be supportive, patient and encouraging when problems arise. Second guessing and "I told you so" comments will produce an unconfident successor who will be insecure in their abilities. The skills required to become a successful modern farm business manager include analytical expertise, shrewdness, persistence, competitiveness, production knowledge and a relentless work ethic. Some or all of these skills have been effectively developed by many farm business owners over the years. These same skills, however, can be very detrimental as the owner begins to relinquish management authority to the next generation.

During the established phase, transfer of asset ownership should be underway. There are numerous tax consequences asset transfer can trigger so tax consequences must be carefully considered. Basic asset transfer methods include outright sales, installment sales, gifting and time of death transfers using such tools as wills and trusts. As farm business assets are transferred from the owner generation to the successor, it is critical that the transfers are consistent with the owner's estate plan.

The Withdrawal Phase

The withdrawal stage is the final step in the process. At the beginning of the withdrawal phase, schedule a meeting to review the plans and timelines made during the established phase. Make needed adjustments to the farm business succession plan where needed. The successor should now have both the experience and the skill needed to be in position to take over the farm business.

Income planning will be critical for the owner generation at this point. A good budget estimate of family living expenses in retirement should be developed. Make certain income will enable the retirement lifestyle desired by the owners. If non-farm retirement income sources combined with farm rental income are not adequate to provide the desired retirement income it may be necessary to sell some of the farming assets to the successor. Cash flow for the successor is also critical. This segment of the generational transition process can prove very challenging financially for those farming businesses that have not provided for any non-farm retirement income. It may require adjustments to both the pace of farm asset transfers and the estate plan.

Labor during the withdrawal phase can also become a bit strained. A clear understanding of the type and amount of labor contributed by the owner should be discussed. One family in Nebraska, the Thompsons, held a family meeting discussing the contributions of the father Larry to the farming business. Larry stated, "I still want to contribute some labor to the farm business but retirement to me means that I will only do the work that I want to. So when I am driving the combine and it breaks down, I want to call my son Dean and tell him the combine broke. I am going to town to have coffee. Give me a call when you have it fixed."

Retirement has different meanings for each individual. It is important for the older generation to consider their vision of retirement. What will retirement look like? Are there things that you have always wanted to do but never had the time? Where will you live? How about travel?

Management of the business should be completely transferred to the successor during the withdrawal stage. If difficult situations arise, the owner is still available to consult and give advice if desired.

Ownership of farm assets that are planned to pass during the lifetime of the farm owners should be well underway during the withdrawal stage. The present U.S. capital gain tax consequences known as a "step up in basis" encourage owners of capital assets to postpone asset transfer until the time of death of the owners. Another consideration that further complicates farm asset ownership transition is that of long term care. If ownership of the farm assets remains with the older generation, they may be in jeopardy should an extended stay in a long term care facility be needed. Nursing homes can easily cost several thousand dollars per month. A prolonged stay can jeopardize farm assets and the overall economic viability of the farm business. A plan to address the risk management strategy regarding long term care should be considered. If long term care insurance is to be used, premiums become increasingly more expensive with age so it may be desirable to purchase long term care insurance early in the farm business succession process.

Conclusion

The U.S. agricultural trend of greater numbers of older farmers owning increased amounts of farm land and assets, coupled with fewer younger farmers owning decreasing amounts of farm land and assets has occurred as a result of interaction between several factors. Many of those factors will not be changed. Although several states have legislated Beginning Farmer Tax Credit programs that encourage landlords to rent agricultural assets to beginners, the U.S. Federal Tax Code discourages the sale of capital assets by the older generation.

Education has made and will continue to make a difference. Educational factors that can make an impact are:

1. Teaching owners of farming businesses the importance of retirement planning and the unintended consequence of failure to plan for retirement.
2. Informing farm business owners of the importance of planning for a farm business successor.
3. Educating farmers regarding the farm business succession planning process.
4. Educating farmers to create communication opportunities and encourage efforts to enhance communication skills.

Farm business succession planning is a process not an event. It takes time, effort, thought, calculations and communication. The process is critically dependent on each generation's ability to communicate. Educators have the opportunity to have a significant impact on farm businesses that are willing to participate in the farm business succession planning process.

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