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Farm Transition . . . . A Three Legged Stool

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Market Report	Yr Ago	4 Wks Ago	10/4/13
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	$124.00	$123.34	$ *
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb..	*	185.51	*
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	*	164.44	*
Choice Boxed Beef, 600-750 lb. Carcass.	190.34	195.94	*
Western Corn Belt Base Hog Price Carcass, Negotiated.	77.97	89.76	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean..	84.46	94.69	*
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.	77.50	108.00	*
National Carcass Lamb Cutout, FOB.	312.54	282.56	*
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu..	7.96	6.64	*
Corn, No. 2, Yellow Nebraska City, bu..	7.38	5.53	*
Soybeans, No. 1, Yellow Nebraska City, bu..	15.12	14.78	*
Grain Sorghum, No. 2, Yellow Dorchester, cwt..	12.46	8.36	*
Oats, No. 2, Heavy Minneapolis, MN , bu.	3.93	3.44	*
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	237.50	242.50	*
Alfalfa, Large Rounds, Good Platte Valley, ton..	215.00	110.00	*
Grass Hay, Large Rounds, Good Nebraska, ton..	185.00	117.50	*
Dried Distillers Grains, 10% Moisture, Nebraska Average.	269.00	214.00	*
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	104.00	80.00	*

***No Market - USDA website down due to Government Shutdown**

Farm and Ranch transition planning can be described as a process that involves three equally indispensable parts:

1. **Estate planning**, which involves transition of the business' assets.
2. **Retirement planning**, which involves transition of the business' labor and management.
3. **Business Transition/Succession planning process**, which involves a comprehensive long-term business plan and an in depth outline of the timing regarding the transition of each part of the farming business.

An attempt to transition a business without adequate coordination of all three parts will likely result in a plan that will struggle to succeed.

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, teaches the successor about the unique management of the operation and equips them to run the business on their own.

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.

Retirement Plan

Lack of good retirement planning can also become a major barrier to farm business succession. For many small business owners, and especially for farmers, 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 or rented 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, however, 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 businesses. 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 Transition/Business Succession Planning Process

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 proven business succession planning model was developed over the past two decades by Iowa State University and the University of Nebraska. 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**. Each phase should be discussed and a timeline needs to be identified that indicates the length of each phase. When thoroughly discussed, the farm transition/succession plan becomes the blue print for the transition process. The planning model is available at: http://www.extension.iastate.edu/agdm/wholefarm/html/c4-10.html.

Farm business succession planning is a process, not an event. It takes time, effort, thought, calculations and communication. Make sure to address each of the three components of the process: **• Estate Plan • Retirement Plan • and Business Succession /Transition Plan.**

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