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Coping With Potholes in Your Farm Transition Pathway, Part II*

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Market Report	Yr Ago	4 Wks Ago	5/7/97
Livestock and Products,			
Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb			
Omaha, cwt.	$51.69	$ 67.75	$ 67.63
Feeder Steers, Med. Frame, 600-650 lb			
Dodge City, KS, cwt.	54.33	75.69	*
Carcass Price, Ch. 1-3, 550-700 lb			
Cent. US, Equiv. Index Value, cwt.	83.91	100.66	98.84
Hogs, US 1-2, 220-230 lb			
Omaha, cwt.	53.68	49.03	58.93
Feeder Pigs, US 1-2, 40-45 lb			
Omaha, hd.	*	*	*
Fresh Pork Loins, Wholesale, 14-18 lb			
Cent. US, cwt.	113.10	105.70	117.16
Slaughter Lambs, Ch. & Pr., 115-125 lb			
Sioux Falls, SD, cwt.	87.67	101.25	87.63
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb			
FOB Midwest, cwt.	170.00	183.00	183.00
Crops,			
Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W.			
Omaha, bu.	6.60	4.34	4.61
Corn, No. 2, Yellow			
Omaha, bu.	4.49	2.85	2.80
Soybeans, No. 1, Yellow			
Chicago, bu.	8.09	8.29	8.90
Grain Sorghum, No. 2, Yellow			
Kansas City, cwt.	7.63	4.89	4.78
Oats, No. 2, Heavy			
Omaha, bu.	*	*	*
Hay,			
First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better			
Platte Valley, ton.	165.00	135.00	100.00
Alfalfa, Lg. Round, Good			
Northeast Nebraska, ton.	75.00	90.00	77.50
Prairie, Sm. Square, Good			
Northeast Nebraska, ton.	62.50	72.50	72.50

* No market.

Transferring a family-operated farm or ranch between generations presents many challenges. Typically, the transfer requires inter-generational transitions in management, ownership, and control of the operating unit. These transitions can occur a little at a time over a period of years. Or, they can happen very quickly when a divorce, a death, a disability, a dispute, or a departure quickly remove a person from production unit activities. Whether the transition is slow or quick, the life situations of two or more generations of individuals and families are changed.

Estate planning by members of the older generation – often by the parents or grandparents of those who take over the operation – guides many inter-generational transitions. This discussion focuses on three potentially troublesome potholes in the inter-generational transition pathway; potholes that can be avoided or coped with through within-family communication and appropriate estate planning.

The "Perfect Plan" Pothole

All of us like to do things well – many people strive for near-perfection in everything they do. Most estate planning decisions are to be implemented at an unknown future time under circumstances that are unclear when the estate plan is developed. Making decisions under these conditions can be difficult for people who like to do things very well. In their search for estate planning perfection they slip into the "perfect plan" pothole and estate planning decisions are deferred and deferred. Too often, the deferral continues until death intervenes.

In avoiding this pothole, the wise farm or ranch family gathers information, analyzes alternative futures for the production unit and its people, makes decisions, and prepares an estate plan that will implement the decisions. This means they do their best when they know the outcome may be less than perfect at the time it is implemented. Through considered action they move ahead doing what they can to ensure the production unit and family members have a viable future. Then, they regularly update the estate plan to reflect changing times and conditions.

The "Keep'em in the Dark" Pothole

Parents who steer themselves and their production unit into this pothole have caused younger-generation families many sleepless nights. The younger family doesn't know whether their parents have an estate plan, nor do they know what is to be done under the estate plan, if it exists. They are reluctant to ask as they worry about seeming greedy, or seeming to be looking forward to their parents' death. Or, possibly they have asked, and were told, "We're not going to talk about that." With no communication, uncertainty and stress are high, and the farm or ranch is at risk.

Discontent arises as the younger family puts time and effort into the operation – they sometimes make improvements on land they don't own while not knowing whether they ever will own the property. If they are to inherit, they may need to be investing more so the unit can remain competitive. If they aren't to inherit, they need to relocate or change occupations while they're young enough to do so successfully.

Avoiding or coping with this pothole is very simple, but too often doesn't occur. Communication – discussion within families and between the generations – will help to avoid this pothole or to make it disappear. It's usually easier if this discussion is started by members of the older generation, but, anyone can be the starter. Information on the intended pattern of estate distribution for property used by the operation is a priority input to planning as the distribution affects the future of the entire production unit. Continue the discussion until each family has the information it needs to make good decisions in business and personal life.

The "High Expense" Pothole

A farm or ranch production unit that supports one or two families usually is large enough to be concerned over the legal and tax costs of estate settlement. (Proposals for reducing estate taxes have been endorsed by the President and Congress. The nature and timing of any such reductions is unknown, and existing laws and regulations continue for now). The estate and the survivors end up in this "pothole" for any of several reasons: (1) the owner or owners underestimated the value of the taxable estate because they didn't recognize the magnitude of recent land price increases; (2) the settlement value of a decedent's life insurance was included in the taxable estate because the insurance was owned or controlled by the decedent at some time during the three years prior to death; (3) property of the first to die passed to the surviving spouse making the second estate too large to avoid taxation; (4) a trust declaration required that the trust retain part or all of the income it receives, and it wasn't amended after the income tax rate on retained trust income was greatly increased; (5) other estate planning decisions were not updated and no longer are appropriate; (6) no estate planning was done; (7) at death the decedent had tax-deferred retirement accounts (Keogh, IRA, SEP, or other similar accounts), but had not declared a liquidation plan, or had no living beneficiary, or had designated the estate as beneficiary; (8) litigation over the estate distribution was initiated by survivors; or (9) high medical or other costs were to be paid prior to the estate settlement.

For most family-operated farms or ranches, the "high expense" pothole can be partly or completely avoided. If your estate is likely to incur one or more of these expenses, take action now. Build your understanding of financial management and estate planning by carefully reading University of Nebraska Cooperative Extension publications (available from your local Extension Office), and related information from other sources. Identify legal and tax advisors with substantial current involvement in estate planning and estate settlement, and utilize their professional advice and services. Make decisions and move ahead with estate planning that fits your situation and desired outcomes.

Staying on the Transition Pathway

The "potholes" identified here and those discussed in the April 16, 1997 issue of *Cornhusker Economics* have many companions. They also lie in wait along the transition pathway of your farm or ranch. Avoid all that can be avoided, cope with the others, and keep moving ahead. Be sure that you and others in your family know who is to do what and when, so any transition that occurs can be as efficient and low-cost as possible.

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* This is the second of two discussions of avoiding or escaping from "potholes" in your farm transition pathway. The first appeared in the April 16, 1997 issue and focused on three potholes that often impede progress along the farm transition pathway.