1-16-2019

Avoid Family Trouble when Planning Farm/Ranch Succession

Allan Vyhnalek
University of Nebraska-Lincoln

AGRICULTURAL ECONOMICS

Januaery 16, 2019

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Cornhusker Economics

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Market Report	Year Ago	4 Wks Ago	1-11-19
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	118.50	*	122.50
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	161.90	170.02	176.27
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	135.71	154.14	148.59
Choice Boxed Beef, 600-750 lb. Carcass.	192.00	231.11	213.70
Western Corn Belt Base Hog Price Carcass, Negotiated	62.55	45.74	51.97
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	79.17	71.01	69.11
Slaughter Lambs, wooled and shorn, 135-165 lb. National.	141.01	132.55	132.58
National Carcass Lamb Cutout FOB.	346.52	380.67	377.72
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	3.11	4.72	4.49
Corn, No. 2, Yellow **Columbus**, bu.	3.17	3.52	3.49
Soybeans, No. 1, Yellow **Columbus**, bu.	9.51	8.07	7.93
Grain Sorghum, No.2, Yellow Dorchester, cwt.	4.83	5.70	5.69
Oats, No. 2, Heavy Minneapolis, Mn, bu.	3.05	3.35	3.35
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	NA	*	*
Alfalfa, Large Rounds, Good Platte Valley, ton.	70.00	110.00	105.00
Grass Hay, Large Rounds, Good Nebraska, ton.	65.00	87.50	87.50
Dried Distillers Grains, 10% Moisture Nebraska Average.	107.50	160.00	151.00
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	42.00	50.50	53.00
* No Market			

There are a lot of potential hot spots that come up when working with farm or ranch families on succession or transfer. One is the perception of the on-farm siblings vs. the off-farm siblings. Another pertains to the use of the family meeting to start the conversation about what happens to the assets when the farm or ranch is to be transferred.

Farm Succession – How Perception Influences Decisions

The story goes like this: The family has one brother who stayed on the farm to work with Mom and Dad. Mom and Dad are now gone. The other brothers and sisters are now wanting to meet to determine an equitable way to split the assets. The on-farm brother has been there over 50 years. He has contributed sweat, management, and value to the operation for decades.

Then the reality sets in. There is a family conversation about the farm now that the parents are gone. It is fairly common to have a difference in perception about the on-farm brother's contribution to the operation over those years.

The on-farm brother will see his contribution as 9 or 10 on a 1 to 10 contribution scale. He obviously thinks that the farm grew and prospered because he was there helping Mom and Dad for literally decades. He brought new information and technology to the operation through his college education. He made huge advances to the genetics of the cow herd and the productivity of the crops. Not only did he provide valuable sweat equity, but his continuous studying and introduction of new technology was invaluable to the growth and profitability of the operation.

The off-farm siblings do recognize that the on-farm brother did put in the sweat equity with Mom and Dad.

But typically they feel that the on-farm brother rode on Mom and Dad's coat tails for years/decades and that the success of the operation was always due to the brains and management of the parents. The on-farm brother gets recognition for some sweat equity, but the off-farm siblings still feel that he primarily rode the coattails of his parents. They value the on-farm brother's contribution as 5 or 6 out of 10 on that 10 point scale.

The important part of this lesson is to not worry about what the exact scale numbers are for the contribution but to understand that there will be a gap in the perception of what the on-farm brother thinks he has contributed vs. what value the other siblings assign to his contribution. The truth probably lies somewhere in the middle in most cases. The main part of this lesson is to understand that there is always a difference of opinion about the contribution of the on-farm brother to the operation vs. what his siblings think. The family has to understand that this might happen and allow for ways to overcome that gap in perception. Again, the truth is probably somewhere in the middle.

Thoughts about Having a Family Meeting

Most family disputes with farm/ranch transition/succession usually go back to poor or improper communication within the family. Most of these disputes could be avoided with better communication. One way to improve communication is to have a family meeting at the beginning of the process. Here are some thoughts on having this meeting:

1. Be sure that the grandparents, or the decision makers of the family, are on the same page. Do they want and/or are they willing to value the input from the rest of the family? Are they ready to put together a plan for their assets? They have to agree first.
2. For the first meeting – and first meeting only – invite all adult family members to participate. Provide electronic means for those not able to attend in person. Be sure to include both on-farm and off-farm (or ranch) family members. This includes grandparents, parents, spouses, grandchildren (of adult age).
3. The purpose of this first meeting is to get input only. It needs to be tightly controlled. When giving input, there need to be strict ground rules. Things like:
   a. No evaluation of suggestions. Members of the family have to listen to all ideas. No one gets to criticize any idea brought forward.
   b. When giving input, no member of the family is allowed to dominate the discussion. Meaning that all members are given the chance for input prior to any member giving input the second, or third time. Take notes, record the ideas.
   c. Take notes, record the ideas.
4. There will need to be follow-up meetings. For those decision-making gatherings, the Golden Rule should apply. The Golden Rule in this case is: *Those who have the gold, make the rule.*
   a. So the number of people at follow-up meetings will be drastically reduced. Maybe the decisions are made by Grandpa and Grandma – no one else.
   b. Or, if decision makers include the children, the recommendation is that no spouses or grandchildren be included in the decision-making portion of the discussion.
5. The vision for the transfer of the farm/ranch business or distribution of assets should be developed prior to thinking about the *tool* that will be used to execute this plan. Too often families worry about the trust, LLC, or the will and confusion reigns. Have a plan**. A competent lawyer will help execute the plan with the correct tools after the plan is laid out.

****Have a Plan:**

- If the farm/ranch business is ending, then the plan will consist of details about how to end the operation and how to disperse assets, to whom and when.
- If the farm/ranch business is continuing to another generation, then the plan will need to consider how assets are to be transferred. Consideration would need to be given to having appropriate income for the older generation, income for the succeeding generation, and proper consideration of the non-farm/ranch family members.

For more information, please refer to: **Fairness in the Farm/Ranch Estate Planning** at: https://agecon.unl.edu/succession/succession-fairness-estate-planning.pdf

Allan Vyhnalek,
Extension Educator, Succession Education
Department of Agricultural Economics
402-472-1771
avyhnalek@unl.edu