

## PREPARING FOR THE FUTURE AG ESTATE PLANNING

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## TOPICS

- Are we retiring? When?
- What do I want to be when I grow up? (Vision/Goals)
- Generations working together
- Family Communications
- Fair vs. Equal
- Planning Assignments



## CONGRATULATIONS FOR COMING!

- This is not a substitute for actual estate planning
- This program is to generate thought, discussion, and broad goal generation
- Use the efforts from today to make better use of your professional's time



## CONSIDER THIS FAMILY

### **Mom and Dad have two quarters of irrigated farmland**

- Two farming Sons
- Estate plan was to get one quarter to each son
- Parents pass – quarters given – however – the value of each quarter was vastly different –
  - One was nearly perfect
  - One was sandy and had a bad well (sucked air at times)
- Brothers got in a dispute
  - Now no longer talk to each other

What could be done differently to avoid this heartache?



### WHEN ARE WE PLANNING TO RETIRE?

20% within the next 15 years  
15% later than 15 years

9% Say that they never plan to retire (maintain full control)  
24% Say they plan to semi-retire (giving up some control)  
21% Say they are already semi-retired (gave up some control)

So – 54% are not planning to fully retire from farming!

Nebraska survey completed in fall, 2017



### HAVE YOU IDENTIFIED POTENTIAL SUCCESSOR?

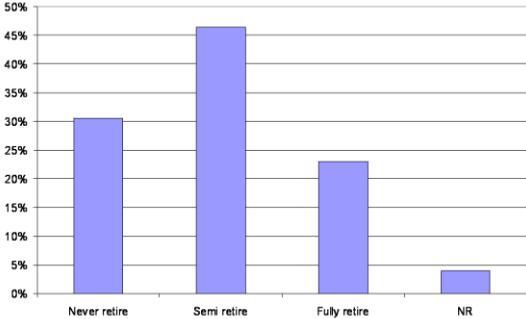
57% - Yes  
43% - No

Of the 'yes' responses  
87% - Identified Children as successor

Nebraska survey completed in fall, 2017



Distribution of Iowa Farmers by Retirement Plans



### WHY ARE FARMERS RETIRING AT A LATER AGE – OR ONLY SEMI-RETIRING?

- Percent of those responding either important or very important
- 75% Have a difficult time giving up control of farm
- 69% Modern equipment – allows them to farm longer
- 66% Relate retirement to their own mortality
- 62% Cannot afford to retire
- 60% Healthier longer/longer life
- 55% Don't have a successor
- 54% Don't know what else they'd do

On-line Survey, Fall, 2017



## ESTATE PLANNING

- “..many farm families experience significant difficulty in discussing the future of the family farm. More often than not, planning... tends to be deferred until some critical life event occurs which forces the family to address the matter.” Kaine, et al, *Succession and Inheritance on Australian Family Farms*, TRDC Pub. #198, The Rural Development Centre, U. of New England, Armidale, NSW



## WHY DON'T WE PLAN?

- Too Complicated (we assume)
- Don't like to Plan
  - It is mental 'work'
- Facing our own Mortality
  - Some just don't want to think about death



## LATEST SURVEY OF NEBRASKANS

- 52% have an estate plan
- 48% don't have an estate plan, but know they need one**

On-line survey conducted Fall, 2017



## STAGES OF SUCCESSION PLANNING

- I should have a plan
- I should go to a meeting
- I've gone to the meeting, there is too much to learn (stop/pause)
- I should have a plan
- I need to meet with a lawyer
- I've met with lawyer, there is too much work to do (stop/pause)
- I should have a plan – or there has been a catastrophic event
- I go to a meeting
- I meet with lawyer
- Succession plan developed (Congratulations!)



## WHAT DO YOUR ASSETS LOOK LIKE AT RETIREMENT?

### Begin with the end in mind!

- Turning in the keys on retirement day – what does that operation look like?
- Who are you handing the keys to?
  - Next generation
  - Auctioneer
  - Renter
- Establish that “Vision” first



## ESTABLISH GOALS FROM THE VISION

- Break down time left in farming/business operation into 5, 10 and 20 year segments
- Plan out what happens by the time you reach each segment
- Will help two ways
  - Gets you to the Vision – what you want to look like at retirement
  - Allows you to make better decisions along the way



## MAKE DECISIONS WITH THE END IN MIND

- You will have different management strategies going forward - depending on what the end is.....
  - If farm or business is going to family, will keep updating machinery
  - If having sale at retirement – at 60 years old, why would you buy a new tractor or machine– if current is OK?
    - To avoid Income Tax? (Bad answer)
- Manage with the “end in mind”



## SUCCESSFUL TRANSITIONS HAVE GOALS

### Older Generation

- Retirement lifestyle (money needed)
- Residence
- Nonfarm or non-business heirs
  - Fair vs. Equal
  - Contribution
  - Compensation

### Younger Generation

- Lifestyle (money needed)
- Growth of business
- Attitude toward debt
- Ownership vs. renting
- Family time vs. work

Phases: Testing, Management Transfer, Asset or enterprise transfer, whole farm (business) transfer



### GENERATIONAL VALUES

Understanding generations  
What are each generation's defining characteristics?

Based on experiences during their formative years.



### THE LIVING GENERATIONS:

Matures: born 1910-1945

Baby boomers: born 1946-1964

Generation X: born 1965-1979

Millennials – (Generation Y): born 1980-2000

Generation Z: born 2001-???

Not including in today's discussion, finishing formative years



### WHERE ARE THE VALUES?



## COMMUNICATE

- Expectations, Expectations, Expectations
  - Especially when going across generations
- Regular business meeting throughout transition period
- Talk about it, then write it down
- Share with non-farm family members
- Surprises cause problems
  - Sweetheart deals (story about Grandma and pivot)
- Younger generation requires better communications than what we've received (generational value)



## CONSIDER THIS FAMILY

- Mom and Dad have three sons
- One son lives out of state and does not intend to farm
- Two sons might consider coming back at some point
- A family meeting is suggested – to discuss who is interested and what plans might be made
- Dad agrees that a family discussion should occur

### • Who should be involved in the family meeting?

Just Mom/Dad

Mom/Dad – 2 sons and spouses

Mom/Dad, 2 sons

Mom/Dad – 3 sons and spouses

Mom/Dad, 3 sons



## COMMUNICATE

- Listening is the Key!
- (Practice) Make partner repeat what they thought you said – to be sure that they heard you, or that you said what you wanted to
- Make sure that you understand the other person's point of view (seek first to understand, then to be understood)
- Spend plenty of time establishing the 'goal' or vision
  - Suggested up to 80% of the time with the vision – or what this will look like
  - Envision the Future! (Mark and Nancy story)



## CONSIDER THIS FAMILY

- 9 grown adult children, close, go to all family gatherings and church for decades
- One brother was on farmstead with mom and dad (grandma and grandpa)
- 3 other brothers/sisters want the brother to stay on the farm
  - They get land appraisal, set fair market value, plan to buy others out
- The other 5 brothers/sisters – aren't happy with arrangement
  - Fair market value isn't the same number they hear at "coffee shop"
- The five force the sale and 'bid it up' – to get the highest sale price possible
- Land sold to a neighbor
- The family is split – no longer do anything together

What could be done differently to avoid this heartache?



## FAIR VS. EQUAL

- Fair may or may not be equal
- Perception difference – depends on point of view
- This pertains to family that have put 'sweat' equity into the business
  - They need to be adequately compensated for this contribution
- Over the years, Mom and Dad (generational value) have tended to make the pie slices equal, but is that fair?
  - In some cases – yes
  - Each situation is different – no one solution to this discussion



## (EXAMPLE) CONTRIBUTION = COMPENSATION

- Four Children
- One farm
- Instead of dividing equally, @ 25% each consider
- Dividing by 5 or 20% each
  - Farm sibling receives fifth share for their contribution – actually receives 40%
- Others receive 20% instead of 25%



## IS THERE A SUCCESSOR?

IF YES, GREAT – IF NO.....

- Farm or Business Asset/Income may leave the area
- Unintended Consequences:
  - Community
  - Businesses
  - Churches
  - Schools
- If you want to help your 'hometown', do it!!
- Allan's story of 2 vs. 7 children!



## COMMUNICATIONS IS THE KEY

- Parents and partners need to have goals and a plan in place (Have Vision for the Future)
- Be sure all siblings know what is going on
  - Communicate!
- Tenants (if not sibling) should know status
- Have a family meeting (be ready to gather input)
- Get end of life decisions in place
- Fair is not equal.....

Good Luck!



## YOUR HOMEWORK ASSIGNMENTS!

### Get your “Team” together!

- Lawyer
- Ag Banker
- Financial Advisor
- CPA
- Insurance Agent

### Items to get together - before seeing an attorney

- List of your assets  
what you own – how you own it
- What you owe (if anything)
- What do you want to do with your assets



## WEBSITES TO GET MORE INFORMATION

<http://agecon.unl.edu/succession>

<https://farmerandrancher.org/articles/>

Articles written by Joe Hawbaker – attorney, Omaha

<https://www.extension.iastate.edu/bfc/>

Iowa State's beginning farmer center

<http://agrilegacy.com/blog/>

Blog posts from Agri legacy

<https://ag.purdue.edu/programs/areyouprepared/readystate/Pages/default.aspx>

Purdue University's estate planning information



## NEBRASKA RESOURCES

### Nebraska Rural Response Hotline

800-464-0258

Call to make appointment – or get questions answers

Monthly clinics across the state

### Beginning Farmer Hotline

800-446-4071



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