Cultivating Continuity

Expert Insights for Farm Succession

A companion to Cultivating Your Farm's Future workbook

PA Farm Link
LINKING FARMERS TO THE FUTURE

Extension
UNIVERSITY OF WISCONSIN–MADISON

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INTRODUCTION

Welcome to **Cultivating Continuity: Expert Insights for Farm Succession**, a companion to the Cultivating Your Farm's Future workbook. This publication is a collaborative effort, bringing together a series of chapters written by experts from across the country on various farm and ranch succession topics. Each article is aligned with one or more of the worksheets found in the Cultivating Your Farm's Future workbook, available through the UW-Madison Division of Extension, PA Farm Link, and the Minnesota Department of Agriculture.

This publication follows the same three-step process outlined in the workbook, guiding you through the essential questions of succession planning:

Where are you now?
Assessing your current situation and understanding the baseline of your farm operations.

Where do you want to be?
Defining your vision and goals for the future of your farm.

How do you get there?
Developing a strategic plan to achieve your succession goals.

Through this structured approach, we provide farmers and ranchers with the necessary tools and knowledge to engage in meaningful discussions about succession planning. By leveraging the expertise shared in these articles, this publication helps identify and navigate the complexities of farm succession, ultimately securing the future of your agricultural legacy.

At the end of each chapter, we have identified the corresponding worksheets in the workbook and additional reflection questions to help users record how the chapter's contents pertain to their own situations.

We invite you to explore the insights and practical advice offered in this publication and to utilize the Cultivating Your Farm's Future workbook as a guide in your succession planning conversations.

We acknowledge the time and expertise of the authors for each chapter and appreciate their willingness to share their knowledge with us to create this publication.

Sincerely,

Joy Kirkpatrick
Farm Succession Outreach Specialist
UW-Madison Division of Extension

Darlene Livingston
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Every Family and Farm Has a Story

By Darlene Livingston, Executive Director, PA FarmLink

Why is the story important?

Do you remember sitting at a family gathering and hearing family members share stories from their childhood or your grandfather sharing stories when you visited? Different times of the year bring different memories to mind. Some are repeated often, even to the point of being annoying, until the person isn't there to share them anymore—then their value soars.

The details of the stories are necessary to understand. History shared, especially items talked about the least, often play crucial roles in people's actions and the farm's history because, for farm families, they are intertwined.

But I'm not family

Farmers have an incredibly close tie to their farm. After all, the farm is where both family and the farm business happen. Transitioning a farm outside of the family can feel a bit like betraying one's family and the sweat equity everyone put into it. Therefore, if you're not family, it's important for you to understand the history of the farm and learn all you are able to about the roots of the farm you want to take over.

You are the only one who can assure the farm family that the history of the farm will not be lost at the signing of a sales agreement. It's at this crossroads that you should realize that you must invest in the history of the farm, as well as the land and buildings, in order to have a successful farm transition.

The true impact

The tough stuff is the events that over the years have created the largest underlying impact on a farm. They may be the issues that broke down communication or simply remained unaddressed.

> *The story of a neighbor showing up with a shoebox full of cash when grandfather was about to lose the farm. The Samaritan's name was, as promised, never shared. This act created an unspoken burden through the generations to ensure the farm was not lost.*

The impact of unaddressed traumatic events may burden a farm for generations. Uncovering the root problem may be the toughest task. If someone is showing a response that's bigger than the issue, most likely there is a deeper wound to address.

Here is just one example of how trauma can impact generations.

A traumatic death of a child during birth that was never talked about. In those days counseling was not available. The only recognition was flowers lovingly placed on the baby's grave every Memorial Day. A small marker was placed on the grave years later when money was available or when the family realized the need to publicly acknowledge the loss.

The couple lost one child; they could not bear losing another. Thus, years later when their only child, a son, shared an incredible job opportunity, he was told if he left the farm he could never come back. Realistically, they would have welcomed him back with open arms, but instead they gave a tough front, and the young man stayed on the farm and lived his life with underlying regret and anger because of it.

Anger would sometimes spill over when farm projects became challenging, with hurtful words being spewed at family members young and old who were assisting with the project. Those words rang in young ones' ears and breathed discouragement into others. All of which would have been avoided if the situation had been dealt with honestly years earlier.

It's hard to fathom that they forbid the son to accept the job, because it's a well-known fact that experience on other farms is an asset and an important step prior to returning to the family farm. It offers the opportunity to see how others do things, to learn new skills, to advance experiences and knowledge, and to bring new options home to the family farm. Likely the couple made the decision from a place of raw emotion that continued to sting deeply instead of thinking of it from a business perspective. The son lived with regret his entire life.

The stories are as important as the farm being in the family 100 years, but much harder to learn about.

Understanding the challenges previous generations faced create opportunities for empathy, healing, and ensuring the hurts are laid to rest and negative cycles broken. This results in opportunities for new beginnings and a smoother transition.

Work through the traumatic events:

While it's most important for the family to overcome negative experiences for the health of the farm, anyone involved with the farm needs to recognize, address, and overcome them as well. Recognizing and addressing the deep challenges faced by the previous generation and then laying them to rest and moving forward is very healing, not only to the farm family but the farm business too. It gives people permission to lay the baggage of previous generations down and not pick it up and continue to carry it forward.

It's a very healthy step for all involved and will lighten everyone's load. It removes potential bumps in the road ahead and provides a clean slate for the new farmers.

Celebrate the positive impact

Grandchildren love the stories shared by others about their grandparents: Stories about animals they purchased from them or stories of farm visits. A plethora of people are still in the ag industry today who remember a positive start made possible by one family farm. These are the stories that are most beneficial to pass down through generations or transition to the new farm owner outside the family.

The positive stories give reason to celebrate and encourage the next generation of farm stewards to develop a mission, not only for the farm, but also for people who work with the farm as well. The new farm owner doesn't have to be family to contribute to the community, but they will gain community support if they do. It's most important that the contribution be the right fit for this generation of farm stewards.

The next chapter

None of us know how the next chapter in the farm's history will turn out. Our role is to give the farm the best opportunity for success whether within the family or outside of it. It does not matter who the person is. What matters is that it's the right person or family for the farm opportunity.

Another important crossroads appears with critical decisions to be made. It's here that farmers once again wrestle with emotion and business as they try to make the correct decision for their farm and their family. It's here that farmers outside the family may also be given the opportunity of a lifetime. An opportunity they won't have without a farm owner choosing the toughest path of all: to let the farm move outside the family to someone who's deserving, ready, and seeking a chance to prove themself as a farm owner.

The worksheet titled **Farm Profile** (pp. 7-9) from *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Reflection:

When you talk about your farm and its history, it's common to include the positive things that have happened as the farm has grown and changed. It also can be helpful to reflect on some of the challenges. What are some of the challenges that the farm and/or the family have faced that have shaped the farm into what it is today?

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Tensions of Farm Succession

By Joy Kirkpatrick, Farm Management Outreach Specialist, UW–Madison Division of Extension

Farm succession is more than the technical details of legally transferring the ownership of assets and tax management. Farm succession can be messy because it involves people rather than just assets, and people have different emotions, different values, and different goals. These emotions, values, and goals can cause tensions among farm and family members. Powering through the technical process of succession without acknowledging and addressing the tensions in your situation will give you a plan, but how long will it last when the tensions build to a breaking point?

It is normal to have tensions around farm succession. As noted, it can be emotional, and for many, change is something to be avoided. Normalizing the fact that there will be tensions and taking the time to consider your farm's tensions can set the farm on the path to a more resilient succession plan. It's better to have awkward and necessary conversations now rather than later.

The five areas of farm tensions

In 2009, researchers in Pennsylvania interviewed farm family members who were in various stages of succession planning. From these interviews, they concluded that there were five tensions present in these conversations. Similar tensions were found from focus group research conducted in 2017 in Wisconsin. While your farm may have unique tensions, there are five common areas/topics where tensions arise around farm succession:

- Finances
- Communication
- Inheritance
- Change
- Control

Finances

In the Pennsylvania study, this was referred to as "profit versus affordability." In Wisconsin it was described as the competing financial needs between the generations. Both research studies noted that increasing land values coupled with tighter profit margins make this one of the more common tensions. When farms are managed by one person, couple, or generation, financial recordkeeping and analysis may focus on tax document preparation and numbers to support loan requests. However, when bringing another person, family, or generation into consideration, more comprehensive financial analysis provides a place for necessary conversations around the past performance of the business and the capacity of the farm to support more people. If analysis of the past 3 to 5 years indicates the farm has adequate capacity and performance, the questions around this area of tension tend to fall into these two potentially conflicting categories:

- What does the owner generation need/want for the assets?
- What can the successor generation and the farm afford to pay for the assets?

Communication

In both the Pennsylvania and Wisconsin studies, farmers recognized the need for clear conversations around succession planning. Unfortunately, many farms rely instead on assumptions. In Wisconsin the word used most to describe tension about communication was "transparency," especially around income/finances, roles/responsibilities, and decision-making. If the succession is between parent and child, both generations must work to break any unhelpful communication patterns. The other tension under the communication category was "starting the conversation." A surprising number of farm families do not have intentional conversations when a family member returns to the farm to work. At a minimum, farm members should discuss the job description, the compensation, and the possible pathways to eventual management and ownership for the incoming generation. These conversations happen more often when the incoming person is not related!

Inheritance

This tension concerns the following question: Should the distribution of assets at the owner generation's deaths be equal or fair among the heirs? This is one of the most common questions farms must answer. Inheritance can symbolize love, trust, and competence. If most of the owner generation's net worth is in farm assets that are needed for the farm to continue, equal distribution can put the future of the business at risk if the non-farming heirs want the value of the assets immediately. Recent research from Oklahoma State University (OSU) used a representative farm model to analyze options to transfer ownership to an on-farm heir while considering inheritance distribution with an off-farm heir. The OSU research indicates that unequal distributions improve the likelihood of transferring the business and of the business reaching basic success milestones over a 20-year period. Equal distribution of farm assets stems from the desire to treat all children fairly, not considering that the children's contributions to the business can vary after they become adults. This is an example of family goals and values influencing business decisions to the detriment of the long-term viability of the farm. And this fairness value can be in direct conflict with another common farm family value: legacy.

Change

The Pennsylvania researchers described this as "progress versus continuity." The owner generation sees no reason to make changes to the operation (continuity), and the successor generation wants to put their education, experience, and management skills to work in the hopes of making a positive mark on the business (progress). The challenge in this tension is that the owner generation may take the suggested changes from the successor generation as judgment. The owner generation hears: "You've been doing it wrong all these years." While in some cases that is exactly what the successor generation means, many more times it is not the intention. The successor generation is eager to show their value and see the business move forward. If the owner generation has gotten the farm to a place where a succession plan can be considered, they've made some right decisions along the way. The successor generation would be wise to consider this and acknowledge this fact. On the other hand, the decisions the owner generation made were made in the past, and now the successor generation may have a completely different "set of facts," such as the economy, markets, and environmental regulations. The farm and family members may want to define continuity less in the way things get done, but more broadly in the facts that the farm continues to be a farm, or the land continues to be in family ownership, if those are important goals they've identified. And progress may be the path to reaching those goals.

Control

This was described as "retaining versus letting go of control" in the Pennsylvania study. Insisting on keeping control of decisions and ownership by the owner generation many times stems from unspoken fears they may have. They may harbor fears about whether the next generation is ready to take over, about the successor losing the farm and the legacy, or about being dependent on the farm assets and the next generation for their retirement income. However, the biggest fear, and perhaps the one hardest to admit, even to themselves, is losing their sense of identity. The owner generation may have decades of being The Farmers and making all the decisions, big and small. If they are no longer the one making the decisions, how will they define themselves?

Strategies for addressing the five tensions

Once farm and family members identify the tensions they see, and discuss them as a unit, they can start building strategies to address them.

Financial strategies:

- Determine each family's living needs.
- Analyze the farm financials and determine long-term viability.
- Determine the goals of the owner generation.
- Foster transparent conversations around farm financials.

Communication strategies:

- Discuss everyone's visions and intentions.
- Write shared visions and goals for the business.
- Ask genuine, open questions.
- Listen to the answers (really, really listen).
- Build a meeting habit.

Inheritance distribution strategies:

- **Ask:** Does the owner generation want an equal or fair distribution?
- **Determine:**
  - The retirement needs of the owner generation.
  - The assets that are essential for the business to continue.
- **Discuss:**
  - When did the successor generation start contributing to the business?
  - Did their labor/management build the owner generation's net worth?
  - Is the successor generation's labor/management helping maintain the business?
  - Is the successor generation helping the owner generation age in place by providing home maintenance or caregiving?
  - Was the successor generation fairly compensated for their contributions or are there sweat equity expectations?

Change strategies:

- Acknowledge that change is hard.
- Review the history and decisions (good and bad) made to get the farm where it is now.
- Consider ways the next generation can have

responsibilities and decision-making authority.

- Define what continuity means for the owner generation.
- Define what progress or success means for the successor generation.

Control strategies:

- Discuss the transfer of farm management decisions.
- Determine the retirement needs of the owner generation.
- Develop contingency plans for farm assets if anyone needs to leave the business.
- Seek opportunities for the owner generation's next phase of farming/life.

Even if your farm doesn't identify all the tensions outlined here, using all the strategies listed can foster honesty, transparency, and a deeper understanding between generations that can generate a more comprehensive and resilient succession plan.

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Reflection:

What are the tensions you see in your farm/family? What are some strategies you can use to address them?

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The worksheet titled **Factors Affecting the Farm Business Transition** (pp. 10-11) in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Family Versus Non-Family Transfer of the Farm

By Darlene Livingston, Executive Director, PA FarmLink

People often think the transfer of a farm is much different if it's going to family than if it's going to non-family. However, when you look at the process, they are vastly similar with just a few differences that make a large impact.

The method of transfer used makes the most difference. The options include a planned, gradual succession or an outright sale of the property.

In the succession process, the owner generation focuses on their desires for the farm. The process may take more work to accomplish than an outright sale and is more complex than leaving the farm to heirs in a will. The owner generation determines their intentions, values, and vision for the farm and for themselves so they can develop a plan. The owner generation may accomplish this on their own or with the assistance of ag professionals. There may already be an identified family successor, or the process may bring to light a family successor for the farm.

If through the process the owner generation concludes that there is no family successor for the farm, then they may choose to search for a successor among their employees or others involved in the farm. Or they may look beyond the farm to neighbors or other young farmers.

The second option is to put the farm on the market so a potential successor may identify themselves by expressing interest in or bidding on the farm. Whether sold through a realtor, auction, or directly from the owner generation, the determining factor in who will get the farm is who can afford to pay for it.

Potential successors, whether family or not, face many of the same constraints.

Successor constraints include:

1. **Lack of capital:** The number one stumbling block for a successor is the capital required to purchase a farm. The United Kingdom's pilot Farm Start and the County Farms Estate initiatives found this to be true. *Keeping It in the Family* also reported capital requirements as a barrier preventing younger people from entering production agriculture.

   In the University of Wisconsin's 2021 focus-group-based research, farmers shared that financial barriers were the second-largest financial concern they had in relation to succession planning. Beginning farmers or successors have a difficult time obtaining a loan due to high land prices. Lack of capital results in lack of land.

Family successors may be offered a discounted farm value to pay or a partial gifting option. The owner generation usually seeks full market price for the farm or assets if sold to non-family successors because family members are more likely to have sweat equity invested in the farm. And the owners may have been given a discounted option when they took over the farm and want to pay that forward to the next family generation. The owners also often depend on the sale of the farm for retirement income because they don't have a retirement fund. All their money went to maintaining the farm business.

Often successors do not have the financial resources, nor can they acquire credit, to purchase such a farm. Therefore, younger-generation farmers should focus on getting their financial affairs in order so that they have a down payment and qualify for loans they need to purchase land.

2. **Housing:** On-farm or reasonably priced local housing is challenging to find in rural areas. Increased demand, in part due to remote work capabilities, has increased rural home values and limited the options.

   Owner generations often want to remain in the area they know best. They usually have deep ties to the farm, especially if it has been in the family for generations. They may have negotiated an option to remain on the farm for an extended period of time, especially if maintaining a role in the farm. Successors desire to be on the farm or close by. If a second home is not available on the property, it creates an additional financial burden for the successor.

3. **Experience:** Potential successors are expected to have a measurable amount of farming experience to be considered.

   The 2021 Wisconsin study reported generational divides, which included the owner generation's feelings about the successor generation not being ready or able to take over the farm. The research study demonstrated that, whether family or not, the successor's ability and management skills (or perceived lack thereof) played a role in the owner generation's willingness to transition the farm.

   It is important for younger farmers to obtain farming experience so that they are qualified for land opportunities that arise. It may be wise to ask in a job interview if the owner has a succession plan or if they are looking for a successor. It may get the owner generation to think about succession options if they haven't already done so.

   Seasoned farmers are difficult to impress, and a high level of skill is required for a potential successor to be deemed ready to take over a farm. A successor's level of experience and work ethic will lend itself to increasing credibility in the farming community.

4. **History of the farm:** The farm's history is very important to the owner and hard for an outside successor to understand. Farm owners often have put their heart and soul into the farm and the farm is their life. They appreciate a successor who has a deep enough interest that they want to learn the stories of the farm. The owner generation wants the stories to remain a part of the farm history.

If the owner is seeking a successor, the entire process will likely require more time and a commitment on the part of both parties as they get to know each other and gain confidence in each other. The owner generation can then determine whether they feel they trust the non-farm successor with their farm. When an owner generation has put their heart and soul into a farm, finding the right person to take it over is a huge decision and one they don't take lightly.

On the other hand, if the owner generation has already left the farm to pursue other interests, it may make it easier for them to sell the farm through a public auction or realtor. They may simply be reducing their responsibilities by selling an asset that requires time and maintenance and aren't interested in establishing a relationship with a successor. Their goal is to eliminate responsibility so they may enjoy their new interests.

A successor may also find the opportunity comes when the farm is sold as part of an estate auction. Often in these circumstances the farm has been left equally to all children and at least one of the children wants to sell it and the others can't afford to buy them out, so the farm is sold to settle the estate. In this case an era is ending, which provides an opportunity for a new owner. When this happens you normally bypass learning the farm history and stories; however, it also takes away opportunities to learn such things as where the water lines are located and many other seemingly small facts that play a big role in the farm operation.

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Reflection:

Owner generation: What are my desires for the farm?

Successor generation: Are there constraints you can address?

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The worksheet titled **Factors Affecting the Farm Business Transition** (pp. 10-11) in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Where Do Anger and Peace Fit into an Ag Legacy?

By John Hewlett, Ranch/Farm Management Specialist, University of Wyoming Department of Agricultural and Applied Economics, and Caleb Carter, consultant to the University of Wyoming Department of Agricultural and Applied Economics

An•ger /' aNGger/ noun – *A strong feeling of annoyance, displeasure, or hostility.* (Oxford Languages, n.d.)

What is anger? Psychology Today describes anger as one of the basic human emotions, as elemental as happiness, sadness, anxiety, or disgust. Anger is related to the fight, flight, or freeze response of the nervous system; it prepares humans to fight. But fighting doesn't necessarily mean throwing punches; it might mean motivating persons to combat injustice by changing laws or enforcing new behavioral norms.

Anger: Three Kinds

Your Life Counts outlines three types of anger that help shape how we react in a situation that makes us angry. These are Passive Aggression, Open Aggression, and Assertive Anger:

- **Passive Aggression** – Many of us do not like to admit that we are angry, because we don't like confrontation—this is called passive aggression. This comes out in behaviors like becoming silent when you are angry, sulking, procrastinating, and pretending everything is fine.
- **Open Aggression** – This occurs when a person responds by lashing out, becoming physically or verbally aggressive, and potentially hurting themselves or others. This response is shown by fighting, bullying, blackmailing, accusing, shouting, bickering, sarcasm, and criticism.
- **Assertive Anger** – The healthy way to deal with anger is through a controlled and confident approach, talking and listening, and being open to help in dealing with the situation. This assertive anger can help relationships to grow. It means thinking before you speak, being confident in how you say it, yet open and flexible to the other side. It means being patient, not raising your voice, communicating how you are feeling emotionally, and really trying to understand what others are feeling. When you deal with anger assertively, you demonstrate that you are mature and care about your relationships and yourself.

Why Anger?

We might reasonably ask: Why do we need anger? Ryan Martin, a psychology professor at the University of Wisconsin–Green Bay says, "Anger is associated with a bunch of consequences, everything from physical aggression and physical fights, verbal fights, property damage, cardiovascular disorders, other negative emotions, and substance abuse problems." When people experience anger in great intensity too often, they are also likely to experience interpersonal or physiological problems.

Many people misunderstand anger. It is this built-in emotion, much like sadness, much like fear, and much like a lot of our other emotions, it's something that is universal. Through his conversations with people about their anger, Martin has learned that many people see anger as a problem. Anger may interfere in our life, it can damage relationships, it may even be scary.

Martin describes anger a little differently: "Anger is a powerful and healthy force in your life. It's good that you feel it. You need to feel it." People can do all sorts of things when they're angry. We also know that anger can be a motivator that encourages people to act in positive, prosocial ways. It really exists in us to alert us to an injustice and then to energize us to respond to that injustice. Although we tend to think of anger as an irrational response and that people who get angry are unhinged, we should keep in mind that we also need it. Martin relates that anger tells us when something feels wrong, unjust, or unfair. Emotions exist in us to alert us to things: sadness, which also feels bad in the moment, alerts us to loss; fear, which can also feel bad in the moment, alerts us to danger; and anger alerts us to injustice.

Anger Has Meaning

We should understand that if we are angry, it must mean something. If we consider the basic reasons why we get angry, one of the most basic reasons is that our goals are blocked. Achieving goals is important to human beings. We can think of anger as one of the mechanisms that allows us to power through those frustrations and obtain our goal.

Martin also suggests that if we think about situations where we are likely to become angry, we can tease out some common themes. For example, we get angry in situations that are unpleasant, that feel unfair, where our goals are blocked, circumstances that could have been avoided and that leave us feeling powerless. But you can also tell that anger is probably not the only thing we're feeling in these situations.

It is important to note that anger doesn't happen in a vacuum. We can feel angry at the same time that we're feeling scared or sad or feeling a host of other emotions. Perhaps most interesting, when we study this further, we discover that these provocations are not making us mad—at least, not on their own. We know this, because if they were, we would all get angry over the same things, but we don't. The reasons I get angry are different from the reasons you get angry, so there must be something else going on. That something else is how we interpret the provocation.

Interpreting Anger

The next question we might ask ourselves is, "What should we do when we start to recognize ourselves responding to a provocation?" How should we respond? Martin encourages people to search for insight to gain the upper hand in these situations. When you notice what's happening to you, think about why it's happening. Oftentimes, people will externalize that. They'll blame the provocation saying, "Well, this thing is making me mad." That's good as a start. The next step should be to ask, "How am I interpreting the thing?" Is that making it worse? That is the level where we can often identify the factors that are leading us to blow things up into a much bigger situation—maybe we're being too demanding or maybe we've labeled a person in a way that's unfair.

Once we've established how we are interpreting a situation, then we can begin to move forward with an intentional goal of deciding what we want to do with it. We might decide that now is not a good time for me to become angry, so I need to take a few deep breaths. I might need to think about something else for a few minutes. Sometimes we might need to acknowledge that this is a situation I can't fix, and I need to find a way to go on and accept it.

Acceptance is one of the most complicated psychological processes when it comes to anger because sometimes it works and is associated with positive outcomes. Sometimes, acceptance ends up being more like suppression and is really just someone pretending the situation doesn't bother them anymore. That's not really a healthy way to address the situation.

Anger and Compassion

Russell Kolts is a clinical psychologist who specializes in compassion-focused therapy. Kolts describes anger as a wonderful sign and a terrible strategy. Most of the time anger is really good at helping us identify things that we need to attend to, things that are troubling us, that bother us, or are potential threats. The problem starts when the typical responses that are motivated by anger can lead us to saying or doing things that cause problems in our relationships or in the workplace or whatever context we find ourselves in.

Kolts describes an exercise that may help. Bring to mind a situation in which you recently struggled. As you look back on that struggling version of yourself in that situation, try to look back with compassion—the way you would relate to someone that you care deeply about and wanted to help. If you could go back and whisper into the ear of that vulnerable version of you in that situation, what support or encouragement might you offer to help yourself be at your best in that moment?

He suggests that it is compassionate to notice that I'm really angry right now. I'm really struggling. This is really hard. Anger tries to convince us that we must act right now. However, we are not required to believe it. We can take a moment, we can work to balance our emotions first, and then we can move forward to work on the underlying situation. He describes that as true strength and compassion.

Breaking the Peace

The family dynamic can be easily derailed in agricultural families when working so closely together. This seems to be especially true as new ideas come up, differences of opinion are shared, individuals become angry over an issue, or decisions are made without consulting everyone. What are some of the other issues that can disrupt peace in a family?

It should be no surprise that conflict arises whenever people are brought together. Conflict and anger are a part of everyday life. Learning how to cope with them is a necessary skill. When conflict involves family and the family business, it can escalate to a whole other level, especially in agricultural families. The agriculture community already breeds people to be self-sufficient, driven, and passionate. Bringing individuals with these traits together can, at times, create tension and lead to disruption of the peace.

One of the challenges in family-owned farms or ranches is that there is often little or no separation of family and business. Family members often live on the same land where the business takes place and the success of the operation, as well as the family, is connected to it. Thus, the stress from the business can often run over into family life and vice versa.

Another factor that can add stress and disrupt the peace in a family is uncertainty. The strain of uncertainty created can overflow to influence the future of the business, as well as an individual's future within the business. Agricultural businesses are subject to market fluctuations, changes in the cost of inputs, and competition. These shifting business factors can be challenging to experience, but, even more difficult is dealing with the uncertainty about an individual's future within the business.

Stress can also result from not being invited to share in making management decisions. This can be particularly difficult when the individual is heavily involved in day-to-day operations with obvious expectations that they will do what it takes to keep the operation going; even what might feel like at any cost.

Restoring the Peace

A breakdown in the peace of a family isn't typically due to just one person's actions. As a result, restoring that peace often takes concerted effort by everyone involved—individuals and the family as a whole.

Individuals can take positive steps to relieve stress and begin to restore peace in the family. Rachel Eddins, a counselor at Eddins Counseling Group, offers seven practices everyone can follow:

1. **Cultivate a positive view of others**

   While individuals may feel very strongly about their opinion or point of view, it is important that everyone respects each other and realizes that everyone's opinion matters. Work to think positively about other family members. Don't look out for only your own opinions, but be considerate and respectful of the opinions of others as well.

2. **Demonstrate patience**

   Practice taking a step back when conflict arises, taking a deep breath, and looking at the situation from all angles. Eddins recommends looking at the problem from (a) your own point of view, (b) the other person's point of view, and (c) the point of view of a third party. For more on this strategy, see the Ag Legacy newsletter, Difficult Conversations: How do we discuss what really matters? (aglegacy.org).

3. **Never resort to abusive behavior**

   Verbal or physical abuse is never the correct path. Instead of using your words as daggers, seek ways to soothe and heal your loved one's feelings. Trying to make your point at the expense of another is never productive. Resist the urge to be sarcastic, raise your voice, or make unfounded accusations.

4. **Practice sharing and giving**

   Take time to get to know your family members. What do they like? What makes them happy? Surprise them sometime with a gift or an act of kindness. You may be surprised by what happens next.

5. **Listen attentively**

   Conflict is typically based on what an individual perceives has happened, rarely on what actually happened. Actions can often be misinterpreted, or motives misconstrued, in the heat of the moment. Take time to really listen to the other person, instead of just hearing them while already planning your rebuttal. Keep an open mind without prejudice.

6. **Be ready to apologize**

   Be willing to apologize and take responsibility for your part in the conflict. Even if you feel you haven't done anything wrong, you can apologize for your negative response. Family peace is more important than pride or victory.

7. **Be willing to forgive**

   Holding back forgiveness can seem like you are reserving some sort of advantage to use the next time conflict arises but, in reality, you are holding back progress. Forgiving someone when they have apologized helps reunite a family. It can restore peace and allow the family to move past the struggle.

Forgiveness is always important; if a person has apologized for making you angry or if you realize that the situation isn't worth it, be open to forgive and willing to be forgiven, as well as to forgive yourself!

Plan for Your Ag Legacy

One of the most stressful issues, as reported by farm and ranch families, is transfer of the operation to the next generation. Even just talking about the transfer of management and ownership can bring up and amplify the stress and anxiety that surrounds the issue.

One possible response to that stress is anger. Although we tend to think of anger as an irrational response, we should keep in mind that we need it. Remember: Anger tells us when something feels wrong, unjust, or unfair. When we feel angry, that feeling should prompt us to carefully reflect on our interpretation of what is going on in order to gain the upper hand—think: "How am I interpreting what is happening and why am I becoming angry?"

Conflict will arise, even in families with good relationships. Planning for it, rather than avoiding it, can help keep the discord from spiraling out of control. One primary way to reduce and resolve problems is for family members to focus on the underlying issues, rather than displaying aggression, passing judgment, or avoiding contention. Family members are more likely to attempt to address the conflict, rather than simply ignore it, when they understand and are comfortable with the process for addressing it.

Taking time to build a plan for succession of ownership and management of the family farm or ranch will allow family members to find peace and understanding about their future. This also allows them to make plans for their own future.

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Reflection:

Is anger holding you back from a sustainable succession plan? What can you do to address this anger so your farm can move forward?

What can you do to mitigate the risk of anger derailing your succession plan?

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The worksheet titled **Factors Affecting the Farm Business Transition** (pp. 10-11) in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Building the Bridge of Trust in Farm Succession

By Kaitlyn Davis, Agriculture Outreach Specialist, UW–Madison Division of Extension

Defining Trust

There are many definitions of the word "trust." According to Merriam-Webster's Dictionary, one definition of "trust" is "assured reliance on the character, ability, strength, or truth of someone or something." Another way is to look at trust as a vulnerability. You are taking the risk of making something you value vulnerable to another person's actions. Being vulnerable is not something that is easy to do. By understanding our own definition of "trust," we can begin understanding how others trust, which in turn will assist in clear communication and conflict navigation.

Some questions to ask yourself as you navigate trust would be: "What does it look like in your farm operation when there is trust?" And on the flipside: "What does the farm operation look like when there is lack of trust?" The answers to those questions are the first step in building the bridge of trust on your farm. In this next section we will talk about three common types of trust that can be found in almost any business setting.

Types of Trust

Let's look at three different types of trust: interpersonal, competence, and institutional trust.

- Interpersonal trust is based on the relationship you have with another person, and the length of time you have known them. If someone continues to show they can be relied upon in a predictable way, they are considered trustworthy. An example of this in farm succession could be the relationship between the owner generation and the successor generation. Decisions about the farm operation are shared openly between the owner and successors. Both the owner and the successors care for each other, and they want what's best for each other. It's when either generation, in small ways, is not doing what they say they are going to do that trust can begin to break down.
- Competence trust is based on skills, abilities, and experience the other person has. If the other person has the expertise to aid in solving a problem, then we are more likely to trust their judgment or advice. From a farm

succession standpoint, it could be that the owner generation begins to hand over management decisions to the successor generation so they can incorporate the experiences and expertise they acquired, whether that be through a degree in an agriculture-related field or working with another farming operation. If the owner generation encourages the successor generation to go off farm to get a degree and/or work off farm, they trust that the successor generation will eventually come back and apply the skills and knowledge they gained to the farm operation.

- Institutional trust is based on whether we see the "system," the rules, or the processes as being trustworthy. We see this in farm succession planning as well. If the owner generation is open and clear about farm financials and the current state of the operation with their successor generation, this creates a culture of trust that the owner generation isn't hiding problems or concerns they have with the state of the business. This opens up a clear line of communication between one generation and the next. Another example would be that the successor generation will trust that there is a plan in place for distribution of assets, and that it will be clearly communicated among all the heirs (both on and off farm).

Breakdowns of Trust

Now that we have covered types of trust, let's explore what might impact trust in the farm operation. A lot of farm operations are family owned. For some family-owned farms, it might be hard to keep problems that arise in the family from impacting the farming operation. No one size fits all and each farm operation is different; however, there are some acts or instances that could impact trust in all farm businesses.

The first way trust can be broken would be an act of commission. This is when a person, group, or organization does or says something that is inconsistent with what you expect. For example, an owner generation who is normally open about decisions on the farm decides to sell without even consulting the successor generation about taking over the farm someday.

The other universal way trust can be broken is through an act of omission. This is when a person, group, or organization fails to do what they say they are going to do. An example of this would be the successor generation planning to go to school or work on another farm operation in the hopes of one day taking over their own farm, but then not following through on their skill building and becoming unable to run the farm operation. Maybe either generation struggles with addiction, and it gets in the way of their financial ability to manage the farm.

These breakdowns of trust may seem hard to overcome. In the next section we will talk about ways to overcome those challenges by using "posts" to build your bridge of trust on your farm.

Building the Bridge

Bridges help us to get from one point to another. In order to help you visualize building a metaphorical bridge, it may be helpful to have a pen and paper handy.

On that sheet of paper you are going to draw two points—you can use half circles for hills or whatever symbol would make the most sense to you. You are going to leave space between the two hills. This space will represent the barriers to building trust. On one side you are going to write down what trust looks like currently, and on the other side you will write down the end goal you want to achieve. Having a clear idea of what that goal looks like will help you know when you have reached that side of the bridge. Writing the goal down will help with that visualization.

For a farm business, this will look different for each person involved with the operation. Maybe the end goal is to transfer management completely in the next 5 years from the owner generation to the successor generation. Or maybe it's a simpler goal of having more consistent farm meetings that include an agenda to help stay on task.

Building a bridge may seem as easy as laying a few boards across a short gap. This is most likely a temporary solution and not a more permanent, sustainable solution to reach the other side. This is where our posts come into play. The following posts are not the end all be all, but suggestions on what foundations you can use to overcome the barriers to trust on your farm and build your bridge.

Posts

- **Care** – This could be seen as a cornerstone piece: If care is not there, the bridge may not be sturdy enough to get you to the other side. Care can be seen as having the other person's thoughts and feelings in mind when making decisions or taking action. If the successor knows that the owner of the farm has their interest at heart when making decisions about the operation, they are more likely to go along with those changes.
- **Reliability** – You do what you say you will do. If there is consistent follow through on decisions and actions, this leads to a strong culture of trust. If someone is saying they are going to do something and they never follow through, this can lead to mistrust.
- **Competency** – This post is going back to competence trust. Are there the skills, experiences, and expertise to get the task done? This type of trust can be seen when management is being transferred from one generation to the next.
- **Clarity** – Are the expectations made clear? Does everyone involved with a decision or action know what the expectations are? Do they know who they can turn to if they are unsure of what action steps to take next? Is the financial standing of the farm operation transparent between generations?
- **Integrity/Accountability** – When a mistake is made, do you own up to it? Have you apologized and offered ways to make amends? Being accountable and having integrity is choosing to be courageous and step up even if the situation may be uncomfortable. It's being willing to ask for help when you need it.

Building Back Trust

We talked about what trust is, how trust can be broken, and steps to creating a more trustworthy environment, but what do you do when trust is broken or not there? Let's revisit the three types of trust and how they can relate back to the posts you just created.

Rebuilding Interpersonal Trust

This can relate back to care and integrity/accountability posts for your bridge. The following are questions to ask yourself as you are working to build back that interpersonal trust. They come from the publication "How to Create Trust in Family Firms and Rebuild It When It's Lost: Implications for Practice and Research," by W. Gibb Dyer.

- Did the offending person apologize? Are they remorseful for their actions?
- Can the person change? If we believe that someone who has violated our trust can change, we are more willing to begin again to build that trust back.
- Are they able to "make up" for that lost trust?
- Is the offended party willing to forgive? If trust is to be restored, it's important that both parties are willing to move forward, that the

offended person is willing to be vulnerable with the other person again.

Rebuilding Competence Trust

When it comes to competence trust, it's all about relating back to the skills, abilities, and experiences of those involved. These can relate back to the reliability and competency posts from when the bridge was being built. Some of the suggestions below come from the Dyer publication, and though it may not be strictly farm focused, a lot of the principles can apply to farm businesses.

- Institute training to improve family and non-family employees' skills—this can be especially important as successors move into decision-making roles.
- Develop competence-based performance appraisals. It might feel awkward to evaluate family members, but it may be necessary to build up skills and competencies to help manage the operation.
- Develop fair procedures to deal with low performance compared to expectations. This could be especially helpful for farms where the family dynamic of parent/child reigns as the communication style. This can help everyone with "clarity," which is one of the crucial posts to building that bridge of trust.
- Require credentials certifying competence. It may be a 2- or 4-year degree, or a requirement that the successor work off the farm for a time to get experience being an employee for someone other than the family.

Rebuilding Institutional Trust

Let's talk more about clarity. This will be the key component to building or rebuilding institutional trust. Below are some suggestions on how to build clarity.

- **Clarify and share details about the business.** Sharing information and details about how the farm is handled day to day can help ease the transition from one generation to the next. Sharing should be done as a mentor or professional development guide and done over time rather than in response to conflict or stress. An example of conflict or stress is where a successor generation is asking for more information and the owner generation is reactionary and overshares or overwhelms them with information. Make sure that the successor generation is introduced as a partner and knows who the key people are that help make the farm run (e.g., accountants, lawyers, ag services the farm utilizes, etc.).
- **Share financial information on firm performance and assets.** Being clear about the farm's financial information and performance before the successor generation assumes management responsibility will aid in a smoother transition. This will help by instilling trust in the successor generation that they have a full understanding of what is happening, and a trust in the owner generation that the successor generation will be able to continue the farm and even aid in improvements as needed.
- **Develop a succession plan that is shared with key parties—including successors, off-farm children, employees, lenders, and other stakeholders.** If it isn't written down, does it exist? Having a clearly defined plan that both the owner generation and successor generation had a hand in developing will help to instill trust that when the time comes for the transition to happen, it can withstand bumps along the way.
- **Make decision-making processes transparent.** If decisions are made together or out in the open and not behind closed doors, it can help to build trust with both the owner generation and the successor generation. They are then

aware of what decisions are being made that may have an impact on them. There may still be decisions that are solely made by the owner generation. It is important for everyone to know which ones are consensus and which are to be made by the owner generation and why. The decision still needs to be shared and an explanation given for why that decision was made. Have more of a mentor/mentee focus to these decisions.

- **Have outside performance reviews.** Having an outsider's perspective can help navigate those bigger trust issues, especially when it comes to farm families. It can be difficult to separate family life from the business. This can be a source of tension and distrust.

In summary, to build that bridge of trust, it is important to look at what "posts" you need that can help you to achieve that goal. Though no two farm family businesses are the same, understanding where trust is at and how it's built can help with the farm succession process. Below are resources used to develop this article and may help you as you continue your farm succession journey.

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Reflection:

Do you have a relationship within the family and/or farm that needs to rebuild trust? Are there strategies in this article you can use to rebuild the trust? Write down a few ideas from the article you are willing to try.

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The worksheet titled **Factors Affecting the Farm Business Transition** (pp. 10-11) in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Monthly and Annual Spending Plans

By Katie Wantoch, Extension Economist, Center for Farm Financial Management, University of Minnesota

Farm household expenses are oftentimes mixed with the farm business. The farm may supply material or goods that might be used by the household. Conversely, the household often provides many items that may be used in the farm business. For example, if the house is part of the farm, the farm's mortgage payment may have financed both the residence and farm buildings, land, etc. Electric bills and property insurance may not be separated for the house versus farm buildings. Receipts from some businesses can include both farm supplies and household expenses such as cleaning supplies, food, etc.

Over 100 years ago many farm households were receiving their major support by consuming their farm products at home, as compared to purchasing from outside sources. W.C. Funk reported in the 1918 Farmers' Bulletin, *"It has been found that, in general, over 60 per cent of the food and over 50 per cent of the fuel consumed by farm families is produced on the farm. This important contribution of the farm is often not fully appreciated by the family enjoying it. A record of the actual products retained on the farm for family use may be of interest and value."*

While this large amount of food and fuel may not be consumed by today's farm household, separating these expenses can be helpful to understand what it might cost to live without including the farm expenses. As the owner generation considers a farm transition, it will also be important to differentiate these expenses. The farm business may or may not be able to pay for more than one family's household expenses. Determining how much will be needed for household costs would help to estimate the income needed.

A farm household spending plan is an estimate of how much is needed for farm household expenses. However, this spending plan can be a difficult task to complete if you are not tracking your expenses. Having separate bank accounts for both farm business expenses and family household expenses can make this separation and tracking of costs easier. When it comes to farm versus household accounts, separate checking, savings, and other accounts can safeguard business funds from personal ones, allow farms to monitor farm spending more easily, and assist with recordkeeping of the farm's finances.

Here are a few approaches to track and estimate your farm's household expenses.

- Start by jotting down household expenses for one week. You can continue for one month to get a more accurate picture, or you may choose to estimate your monthly expense based on this week.
- The first step in tracking might be to log expenses using a notebook or ledger book, word processor document, computer spreadsheet, etc.
- Other methods to keep track of household expenses include jotting down expenses on a calendar or labeling envelopes with the different expenses and sorting receipts into each.

While tracking your expenses may be time-consuming, it will be necessary to complete the Monthly and Annual Spending Plan worksheets. The Monthly and Annual Spending Plan worksheets can be used to attribute expenses to the household and farm business. In a farm succession, these worksheets can be used by both the owner and successor generation. The worksheets are sorted into three sections: "Household Expenses Worksheet," "Debt Worksheet," and "Household Net Income Worksheet."

Household Expenses Worksheet

The Household Expenses Worksheet will review your monthly costs related to the farm household and assist you in determining what percentage of these costs are being paid by the farm business as compared to family living or nonfarm income sources.

The two columns "% Family Living" and "% Farm Cost" will assist you in allocating percentages of an expense that may be combined and currently paid as a total cost. Think about what percentage of an expense is personal and what percentage is farm related. You may not have a split percent for every expense as this may apply for only a few spending categories. Total these expenses on this worksheet to determine your annual living expenses and what may be your annual family living cost. As you complete this worksheet, think about which expenses may go up or down as you transition the farm business to the next generation.

Spending Categories

Housing: mortgage/rent

- Mortgage or rental payments are examples of fixed payments. This type of expense is not likely to adjust over the year or multiple years. For many farm families, a farm mortgage may encompass the house and farm buildings, farmland, etc.
- Who will be making this loan payment? Are you planning to move off the farm and have a separate mortgage or rental expense?

Property taxes

- Farmers must pay real estate and personal property taxes on farm business assets, such as farmland and farm buildings. They may be able to deduct these expenses from earned farm income. However, this deduction should not include property taxes from a house or land with a house on it. To determine the amount of property taxes that are allocable to a house that is on a farm or farmland, you should work with a tax preparer or accountant.
- Who will pay the property taxes on your home in the future? Are you planning to move off the farm and have property taxes on this new property?

Insurance: home/auto

- Property insurance can provide coverage for the structures on your farm along with farm equipment, machinery, livestock, and farm products. The farm business may also be paying the insurance premiums for your house and your personal vehicles. Your insurance agent can help with attributing property and auto insurance costs for the household separate from the farm buildings/property.

- Who will pay the insurance premiums on your house and vehicles in the future? Are you planning to move off the farm and require a new insurance policy on this new property?

House repairs/maintenance

- Repairs are a straightforward concept. According to the IRS, routine maintenance keeps your property in good working condition without increasing its value or prolonging its useful life, and these expenses can be deducted in the year they occur. The IRS defines routine maintenance as something that "keeps your property in a normal efficient operating condition." Also, the average homeowner can't generally claim a tax deduction for the cost of repair and maintenance of their home. However, farmers and rental property owners may be able to deduct these expenses.

- Who will pay for the repairs and maintenance of your home in the future? Are you planning to make repairs or improvements to your home? And who will pay for this expense?

Utilities: electric/LP/gas/water/sewer/garbage/recycling

- If you receive a single bill from your electricity, LP, natural gas, water, and sewer company or cooperative, you should allocate the expense between your farm business use and the residential use. Your tax preparer or accountant may have a formula or percentage for separating the bill.

- If possible, you may consider getting two separate electric meters for the farm buildings and the house. Separate accounts may need to be set up for the farm business and your farm household with your provider.

- Who will pay for these bills for your home in the future?

Utilities: phone/cell/satellite/internet

- Farm families are like nonfarm families in their desire to consume luxury items, such as travel, vacation homes, recreational vehicles, etc. Where these families differ is the distinction between personal versus business consumption, such as with a set of smartphones requiring data plans for the entire family and high-quality internet. While these might be viewed as personal "wants" from some perspectives, many farmers rely on their cell phones to call, text, or use smartphone apps and features to conduct their business. The same can be said for the personal computer use and the internet. Your tax preparer or accountant may have a formula or percentage for separating the bill. Separate accounts may need to be set up for the farm business and your farm household.

- Who will pay for these utility bills for you and your family in the future?

Auto maintenance/fees/gas or fuel for auto

- Farmers can either deduct the actual cost of operating a car or truck or deduct the standard mileage rate for each mile of business use from earned farm income. When vehicles are used for both personal and business purposes, you may take deductions only for the percentage of use attributable to the business, which requires detailed recordkeeping. These auto expenses may include gasoline, oil, repairs, license tags, insurance, and depreciation (subject to certain limits).

- Who will pay for these bills for your vehicles in the future? Will the farm business own the vehicle? Will you need to purchase a new vehicle?

Groceries/eating out/clothing/entertainment/pets/gifts/donations

- Flexible expenses are those expenses that change from month to month or week to week. Some examples are food, clothing, hair care, gifts, recreation, and donations. Flexible expenses are often easier to adjust depending on your activities, lifestyle, etc.
- Will personal expenses, such as travel and meals, be paid by the farm business? What will be your need for these flexible expenses in the future?

Farm animals (for eating/meat)

- Farmers may utilize gardens, homegrown meat, and their own produce to trim grocery bills.
- Will you continue to have access to these resources in the future? What will be your need for these expenses in the future?

Household supplies/adult education/professional or service fees

- Oftentimes, you may be purchasing household and farm supplies in a transaction, such as toilet paper, cleaning solutions, etc. You should allocate the expense between your farm business use and your personal/household use. The same can be said for adult education or professional development that you may be pursuing.
- Will these expenses be paid by the farm business? What will be your need for these flexible expenses in the future?

Health insurance/co-pays (e.g., medical, dental, eye, pharmacy)

- Nearly one-third of farmers lack health care benefits, or spouses/significant others may be providing some or all these benefits. Insurance and health care costs can be high. There may not be an employer to pick up part of the cost of employee insurance plans in a farm business. The farm family may not participate in a group insurance plan. And the need for insurance is magnified because farmers face a greater risk of injury, disability, or death. Such benefits provided by the farm or spouses/significant others may be inaccurately missing from a farm or household budget and may significantly increase expenses if they were appropriately budgeted. Medical expenses include out of pocket expenses for medical, dental, and vision care as well as the premiums for any health, dental, or vision insurance products purchased.
- Will these expenses be paid by the farm business? What will be your need for these flexible expenses in the future?
- For those who do not have access to health insurance through employment, www.healthcare.gov, commonly referred as “the marketplace,” is the government-based program designed to help those without insurance find affordable coverage. In Wisconsin, **Covering Wisconsin** is a program of the University of Wisconsin–Madison Division of Extension. This Wisconsin program helps connect Wisconsin residents with health insurance and other programs that support health.

Child costs (e.g., care, school, clubs, lunches)

- The cost of raising children has increased in recent years. Childcare is a fixed expense that stays the same every month, while the cost of school lunches and supplies, extracurricular activities, etc., are flexible expenses since those costs fluctuate over time. Costs such as hiring a childcare provider may increase the hours of labor available for farm work.
- What will be your need for these flexible expenses in the future?

IRA/retirement savings/emergency savings

- According to a USDA report, only 40 percent of farm households participate in some type of retirement account, compared with 60 percent of all U.S. households. Retirement planning is a critical step in preserving the assets that have accumulated over the working years. Many farmers may choose to invest surplus funds back into the farm business rather than saving for retirement. However, the strategy of holding wealth only in farm assets can add financial risk and uncertainty during challenging economic conditions. Diversifying an investment portfolio can help reduce risk in retirement and address some challenges that farmers face when they consider retiring, such as tax implications. There's no one-size-fits-all retirement plan for farmers, but a financial advisor can help build a customized financial planning strategy.
- Will retirement and emergency savings be paid by the farm business? What will be your need for these savings in the future?

Debt Worksheet

The Debt Worksheet will examine your debt payments that are related to the farm household and assist you in determining what percentage of these payments are being paid by the farm business as compared to family living or nonfarm income sources.

This section of the worksheet assists in allocating the percentage of the payment that may be farm versus household expense. For example, debt payments may include an auto loan that the farm has previously made the full payment on; however, the vehicle is for both farm and personal use. The column "% Family Living" will assist you in allocating percentages of an expense that may be combined and currently paid as a total cost. Think about what percentage of an expense is personal and what percentage is farm related. You may not have a split percent for every payment.

If you have not listed the family cost of the farm mortgage payments on the previous worksheet, you may want to record it in this section. Also list loan payments for a personal residence and other nonfarm property, student loans, credit cards, and other debt payments.

Total these debt payments on this worksheet to determine your annual debt payments. As you complete this worksheet, think about which expenses may go up or down as you transition the farm business to the next generation.

Household Net Income Worksheet

As you consider who's paying for farm and family household expenses and debt payments, you also need to review your income sources. You may be able to increase income if one of your family members enters the labor force. A family member might grow produce and vegetables at home and plan to sell this production at a local market. Additional income from selling or trading unused or unneeded items or receiving assistance payments are other ways to increase your income. Assistance payments such as food stamps, reduced or free school lunches, and other public and private assistance exist to help those farm families with temporary financial difficulties.

As you complete this worksheet, you can ask yourself the following questions:

- Is there off-farm income that you are or will be receiving?
- How much income do you expect (after deductions), and when do you expect to receive it?
- Are there social security or investment payments that you are or will be receiving as additional income streams?
- Are you receiving or going to require a draw from the farm business that would be on a monthly or annual basis?

- Would that payment be irregular, or would it be regular, such as a land rental payment?
- Are you able to reduce the amount drawn from the farm?
- For example, rental payments may not be paid during years of reduced farm profits. As the recipient of that payment, would you be able to allow the farm business to defer the rental payment to another year until the farm would be more profitable? Depending on your family's expense needs, this may or may not be an option for you.

Compare Total Monthly and Annual Spending, Debt, and Income

Finally, you should compare the total monthly and annual family household expenses and debt payments with monthly and annual household income. These worksheets will provide you with estimated family household expenses that will not be paid by the farm and income that may or may not support these expenses. If expenses are greater than your projected income, you can consider either reducing expenses or increasing income. Reducing household expenses may require your family to decide which expenses are essential for their physical and mental health and safety, and which expenses are nice but not essential.

Your next step would be to determine if your income and expenses will be increased or decreased during and after your farm business transition and how this may impact the farm business in the future. Separate accounts will make monitoring farm and household expenses easier. Deciding how income will be divided between farm and family expenses before it is received can reduce conflicts and confusion. Develop a system based on a careful evaluation of expected income and expenses as well as on your goals and priorities.

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Reflection:

As you consider your transition, which could be stepping back from the farm, entering the farm, moving from or to the farm, what expenses do you think will increase or decrease?

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The worksheet titled **Monthly and Annual Spending Plan** (pp. 14-15) from *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Long-Term Economic Viability and Farm Succession

By Dr. Kevin Bernhardt, Farm Management Specialist at the University of Wisconsin–Madison Division of Extension and Professor of Agribusiness at the University of Wisconsin–Platteville School of Agriculture

Economic viability of the farm business is one of the many challenges facing successful farm succession. A less-than-ideal economic situation may sustain for several years under the current generation whose economic needs and desired lifestyle are largely met. However, that same economic situation may not work for the next generation who is looking to build wealth for their future and their children. At this point, economic viability has increasing importance.

This chapter is organized into three parts:

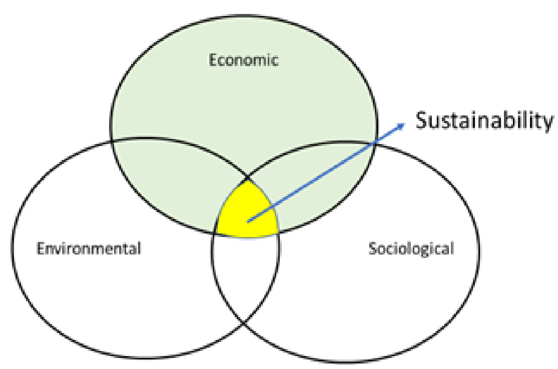
1. Concept, definition, and measurable goals for long-term economic viability
2. Process for evaluating current viability and determining future strategic direction
3. Analytical methods for deeper evaluation of viability components for focusing management decisions and actions

In addition, the Appendix provides links to several analysis tools.

Part 1: Long-Term Economic Viability – Concept, Definition, and Measurable Goals

Economic viability is rooted in the broader ideal of sustainability. While the definition of sustainability continues to evolve, Figure 1 illustrates the broad agreement that sustainability includes some interconnected mix of economic, environmental, and sociological goals (Latruffe et al., 2016).

Figure 1: Components of Sustainability



Economic viability itself is more narrowly defined as farm-level financial success (Christensen & Limbach, 2019; Smale, Saupe, & Salant, 1986). Spicka et al. (2019) and O'Donoghue et al. (2016) provide summary definitions of farm-level viability from several authors and contrast U.S., Canadian, and European views. Common among the definitions is the capacity of the farm family to have enough financial success to "make a living," while differences include how financial success is measured, the breadth of what is included in "making a living," and the scope of measurement (farm, household, regional food system, etc.).

Scope is particularly important when considering the viability of the farm household versus the narrower scope of the farm business only. While a farm business itself may not be viable, the farm household may be sustainable due to off-farm income of household members (Hennessy, Shrestha, & Farrell, 2008).

However, while the current generation may be viable due to non-farm sources of income, that viability may not transfer to the next generation. Thus, this discussion is confined to the financial viability of the farm business only to support family living and continuation of the farm, particularly in the context of transition to the next generation.

Latruffe et al. (2016) add risk and time to the definition of long-term economic viability for farm succession. Their definition includes the need for financial success to make a living, but they add the need to do so continuously in the long term (time) under changing economic conditions (risk) for the "professional life of the farmer, or across generations" (p. 125).

Building upon this previous work, following is both a working definition of long-term economic viability and financial goals for measuring viability in the context of transition.

Long-term economic viability is the continuous capacity of the farm business to meet financial goals for the present generation under changing economic conditions, without compromising the financial ability of future generations.

Financial goals are the long-term ability of farm revenues to cover:

1. Operating costs, interest, and taxes.
2. Return to owner labor equivalent to its opportunity cost.
3. Return to management equivalent to its opportunity cost.
4. Asset recapitalization of the farm business.
5. Return to equity capital equivalent to its opportunity cost.

Changing economic conditions are the risks that farms face (prices, weather, policy changes, geopolitical events, human resources, the five Ds[1] , etc.). A farm business does not know what the risks will be, when they will occur, or future risks that are yet unknown. Thus, long-term economic viability must include robust resiliency to absorb the economic consequences of any risks that may occur now and in the future.

Opportunity cost refers to broader choices an individual has about where they can employ their labor, management, and capital. The earnings forfeited by owners for putting their labor, management, and capital into farming instead of some alternative is real money not in their pocket because of their choice to stay in farming. This forfeited money is an opportunity cost and for the next generation who is already at a point of choice, covering this cost may be a deciding factor for returning to the farm.

Opportunity cost of owner labor refers to the manual labor supplied by owners, while opportunity cost of management is the owner's thinking, planning, organizing, coordinating, decision-making, directing, etc. The value of each depends on the owner's alternative employment opportunities for their labor and management. In practice, it can be estimated using local, state, or national statistics of labor salaries, 4 to 5 percent of total revenues, or some other method. Whatever method is used, the key is assessing whether the farm is providing a fair return for the owner's physical and intellectual efforts compared to what they could command off the farm. Again, it may not be important for the current generation, but for the successor generation it is likely a major part of their decision-making.

Note, opportunity costs of owner labor and management are often estimated together as one sum. However, in this analysis, they are separated to distinguish a full versus partial return for the owner's efforts.

Opportunity cost of owner equity is what the owner's investment in the farm could return in a non-farm investment of similar risk. A conservative long-term estimate is 5 percent of owner equity. However, ultimately it is what return the owner would receive if they invested elsewhere.

Asset recapitalization is how much is needed each year to maintain and modernize the physical infrastructure of the farm (machinery, buildings, etc.). Each farm's needs are unique depending on the type of business, degree of technology, age of current infrastructure, etc. A typical estimate based on the useful life of common assets is 10 percent of machinery market value plus 5 percent of buildings market value.

Part 2: Process for Evaluating Current Viability and Determining Future Strategic Direction

Table 1 shows a process for using the accrual income statement to evaluate viability strength or vulnerability through an analysis of how well gross farm revenues cover the five financial goals defined in the definition of long-term economic viability. Table 1 also shows a descriptive label for each level of viability, called the viability camp. The camps are Builder, Long-Hauler, and Guardian-Transitioner (Bernhardt, 2021).

Note, if an accrual income statement is not available or complete, then Worksheet 1 in the Appendix enables a limited analysis of viability based on answers to broad questions. The Appendix also has links to spreadsheet tools for creating financial statements, including the accrual income statement.

Table 1: Determining Economic Viability Strength and Associated Viability Camp

Strength of Economic Viability: *Long-Term Economic Viability Camp:*	Strong *"Builder"*	Vulnerable *"Long-Hauler"*	Weak *"Guardian-Transitioner"*
Total Farm Revenues Coverage of:			
1 Operating Costs[1], Interest, and Taxes	Yes	Yes	≈ 60% of time, (3 of 5 years)
2 Return to Owner Labor[2]	Yes	Yes	Occassionally
3 Return to Owner Management[2]	Yes	≈ 60% of time, (3 of 5 years)	No
4 Asset Recapitalization[3]	Yes	Occassionally	No
5 Return to Equity Capital[4]	≈ 60% of time, (3 of 5 years)	No	No

1. Cash payments to owners for their labor are not included in operating costs.
2. Returns to owner labor and management are an opportunity cost. Labor refers to the manual work provided by owners, while Management is the planning, organizing, and decision-making work provided by owners. It is common that the two are aggregated together.
3. Asset recapitalization is investment needed to maintain and modernize capital assets of the business.
4. Return to equity capital is the opportunity cost of interest that could have been earned on equity capital invested in a similar risk non-farm alternative.

Table 2: Example of Determining Economic Viability Strength and "Viability Camp"

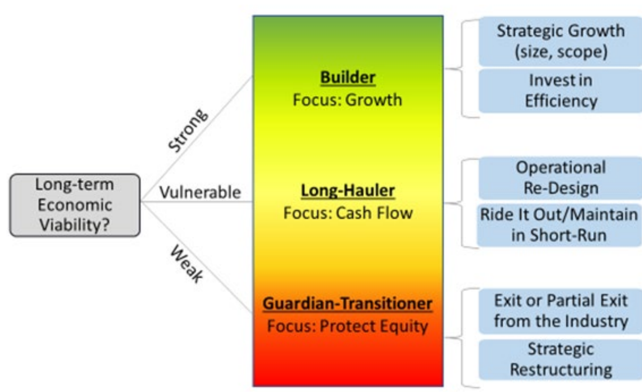
Strength of Economic Viability: *Long-Term Economic Viability Camp:*	Strong *"Builder"*	Vulnerable *"Long-Hauler"*	Weak *"Guardian-Transitioner"*
Total Farm Revenues=	**1,522,636**	**1,200,168**	**1,464,644**
1 Operating Costs[1], Interest, and Taxes ***Balance***	1,322,068 **200,568**	1,126,030 **74,138**	1,440,207 **24,437**
2 Return to Owner Labor[2] ***Balance***	44,200 **156,368**	44,200 **29,938**	44,200 **-19,763**
3 Return to Owner Management[2] ***Balance***	44,200 **112,168**	44,200 **-14,262**	44,200 **-63,963**
4 Asset Recapitalization[3] ***Balance***	98,590 **13,578**	27,628 **-41,890**	16,568 **-80,531**
5 Return to Equity Capital[4] ***Balance***	80,119 **-66,541**	110,222 **-152,112**	70,447 **-150,987**

1. Cash payments to owners for their labor are not included in operating costs.
2. Returns to owner labor and management are an opportunity cost. Labor refers to the manual work provided by owners, while Management is the planning, organizing, and decision-making work provided by owners. It is common that the two are aggregated together.
3. Asset recapitalization is investment needed to maintain and modernize capital assets of the business.
4. Return to equity capital is the opportunity cost of interest that could have been earned on equity capital invested in a similar risk non-farm alternative.

Table 2 shows an example using a 5-year average of three dairy farms of relatively the same size. For this example, the total of owner labor and management is valued at $88,400 split half into labor and half into management.[2]

Knowledge of where you are is a big step toward proactively planning where you want to be. Each viability camp has future opportunities and/or limitations based on the business's current financial health. Figure 2 shows potential strategic directions for improving future viability based on which camp one starts from.

Figure 2: Long-Term Economic Viability Camp and Strategic Direction



[1] The five Ds are Death, Divorce, Disaster, Disability, and Disagreement.

[2] This estimate is based on the owner splitting time between manual labor and management at half-time each with manual labor being worth $25/hour (more skilled and experienced than the typical farm laborer) and $60/hour for management. Other methods could be used for valuing management such as 4 to 5 percent of total revenues.

Analysis of Table 2 Farms

The "Builder" farm met most of the goals of long-term economic viability, coming up short of covering all needs for return to equity capital. If this 5-year average improves enough to cover equity capital as well, then they or their successors have a strong economic foundation and, as Figure 2 illustrates, are well positioned for a focus on growth, which may be growth in size, scope, efficiency, or investment in diversification on or off the farm. The successor generation has the benefit of knowing their labor, management, and equity is competitive with other alternatives, which can increase confidence and ability to successfully transition.

The "Long-Hauler" farm covered operating expenses, return to labor, and at least some return to management. This keeps them in business and provides some minimal family living. Depending on the situation, this may be enough (such as an older couple working toward nearby retirement). However, the Long-Hauler struggles to earn a full return to management, maintain or modernize the assets of the business as they wear out or become obsolete, and are seldom able to maintain a return to their equity capital.

The Long-Hauler is surviving, but the infrastructure and financial potential of the operation is deteriorating. Financial stress will never be very far away, and the Long-Hauler's focus might be "riding it out." Transition will likely saddle the next generation with infrastructure and/or a business model that are not economically sustainable. Thus, they begin their tenure knowing they are sacrificing the value of their labor, management, and equity capital. That is a tough ask of someone at the beginning of their career. Strategic options include a significant redesign of the business model and/or investment in the size, scope, and/or efficiency of the operation to one that has potential for improved economic viability.

Recall that this discussion is explicitly focused on the viability of the farm business itself and does not consider the broader viability of the farm household including consideration of off-farm income. There are likely many "Long-Hauler" farm situations where the owners have off-farm income and may even be using the off-farm income to subsidize the farm business. Taken as a whole, the household is economically viable and often quite successful. However, will the off-farm income transfer to the next generation? Thus, while the farm household may be economically viable for the current generation, that viability may not be transferable to the next.

Finally, the "Guardian-Transitioner" camp has significant financial vulnerabilities. Farm income just covers Goal 1 (operating costs, interest, and taxes), but falls short of all other goals. The Guardian-Transitioner must subsidize asset recapitalization and even family living from current equity[3] or outside contribution. If infrastructure, the business model, and/or management is not working, the business is very likely to continue being financially stressed, and the erosion of equity will likely continue.

The focus for this camp is guarding remaining owner equity from further erosion by exiting the industry or partially exiting and restructuring to a new business model. This is the worst-case scenario for farm succession. Succession will take a major strategic realignment of the business model likely involving a partial exit or major investment from outside current resources.

[3] Current equity can be used to subsidize other parts of the business by selling capital assets or borrowing against the equity and using the proceeds to cover expenses and family living.

[4] The scorecard was developed by the Center for Farm Financial Management at the University of Minnesota and the University of Vermont Extension using ratios from the Farm Financial Standards Council's Financial Guidelines for Agriculture (https://ffsc.org/).

[5] Commodity marketing tools such as futures, options, forward contracts, etc., can be used to pre-price a product, but there is little that can be done to change the ultimate market price.

A final note is that any single year can look financially dismal even for the best of farm operations. Thus, it is important that the financial measures of viability be a multi-year analysis.

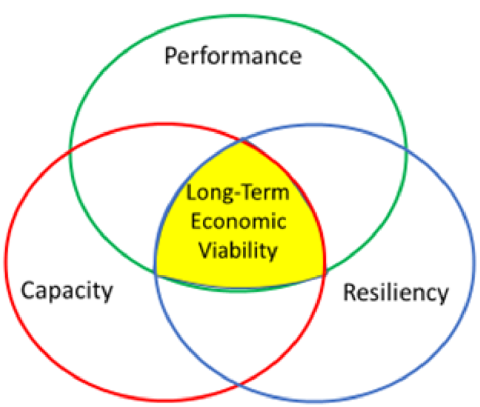
Part 3: Processes for Deeper Analysis of Viability Components for Focusing Management Decisions and Actions

Evaluating the goals of economic viability gives a picture in time of the operation's current viability status. While that is important baseline information, many owner/managers are interested in how viability got to where it is today, what is holding it back, and which components of the operation to focus on to build greater viability in the future.

Figure 3 shows a three-part process for analyzing the components of long-term economic viability, which are:

1. Performance
2. Capacity
3. Resiliency

Figure 3: Components of Long-Term Economic Viability



Performance

Performance is a financial analysis of balance sheets and accrual income statements. The farm business will have unprofitable years, potentially for reasons beyond the owner's control; however, the question is whether there is long-term average performance consistent with industry standards and top performers and what areas of the operation need improvement.

There are many tools and methods for evaluating financial performance (see the Appendix). One benchmark that is widely used is the Farm Financial Scorecard[4] that organizes ratios into areas of financial performance that can be compared to industry standards including liquidity, solvency, profitability, repayment capacity, and financial efficiency. Ratios used are vetted and approved by the Farm Financial Standards Council, which also publishes its recommendations in the Financial Guidelines for Agriculture (2023).

While liquidity, solvency, etc., are important measures, greater profitability ultimately is the foundation for long-term viability. The DuPont system for financial analysis is a process that can be used to analyze three primary levers of profitability and determine where to target management for greater profitability. The three levers are:

1. Creating gross revenues from assets
2. Efficient use of inputs
3. Leverage

See the Appendix for links to more information and tools on the DuPont system.

Capacity

Capacity is a size question. Are there enough cows, acres, or trees to meet the five goals of long-term economic viability? Capacity is centered in the profit equation:

*Total Profits = (Price*Quantity) - Costs of Production*

Many farms produce and sell commodities. The commodity-based business model is characterized by being price takers, that is, having little to no control over market prices.[5] The value-added business model has more control over prices but is still constrained by competition. Thus, the farm owner/manager is limited in how much impact they can have on profits from market prices.

While many farms, especially commodity-based farms, are price takers, they are not cost takers. Management can have an impact on costs of production, which is part of the performance analysis previously discussed.

This leaves quantity. Quantity comes from two sources. One is the efficient use of resources to get more from each unit of production (milk per cow, bushels per acre, apples per tree, etc.) and the other is having enough production units (cows, acres, trees, etc.). Having enough production units is capacity.

An operation can be very efficient in making profit margins per cow, acre, or tree. However, if there are not enough cows, acres, or trees to earn that profit margin on, then the total profits generated may not be enough. Further, while capacity may be sufficient today, is it sufficient to accommodate a successor generation? Finally, the "right" amount of capacity depends on the business model. A commodity-based business will have a different "right" capacity than a value-added model; nevertheless, while its meaning may change, capacity is a component of viability for any business model.

One way to evaluate capacity is "what-if" analysis. The "Capacity and Breakeven Evaluation" spreadsheet tool (see the Appendix) provides a means to evaluate capacity questions based on expected prices, costs of production, and profit goals.

Resiliency

The third component, resiliency, is the comprehensive implementation of risk management strategies and management practices that enable a business to absorb the shocks from changing economic and other conditions that may occur over the long term. Changing economic conditions include weather, prices, geopolitical events, climate change, death, exit of a managing partner, new technology, new laws, and many more (some of which will occur in the future that we are not even aware of today). Building resiliency includes legally binding products such as insurance, marketing contracts, lines of credit, wills, trusts, etc. It also includes management practices such as contingency planning, safety training, personal relations, third-party assessments, and labor management.

Resiliency is often the Cinderella of management, often forgotten, in the background, and almost irrelevant until the big risk event occurs. Resiliency is also typically a cost and since the general management challenge with costs is reducing or eliminating them, the cost of resiliency is often on the cutting block. Making this more challenging is that the likelihood of a bad event occurring today, next week, next month, or even next year may be low. Yet, if long-term economic viability is the goal, especially a long-term one that spans multiple generations, then a business must be able to survive the challenges that will arise.

Figure 4 shows an illustration of the Resiliency Wheel, an easy-to-use awareness tool that can provide a resiliency map of strengths and weaknesses. Each spoke of the wheel is an area of potential risk. The red numbers in Figure 4 are a score of the degree of management in each area where a "5" means robust risk strategies or management practices are in place and a "1" means there are no strategies or practices in place and the business is vulnerable, potentially catastrophically vulnerable. Any areas less than 3.0 indicate an area of vulnerability and thus an area of potential management attention for increasing long-term economic viability.

The best wheel for getting through the mud (risk) of agriculture is large and round. Attention to all areas of risk gives a round wheel and significant attention to each risk (a score of 5) gives a large wheel. The red resiliency map shown in Figure 4 is far from round or large and one can quickly see areas needing management attention.

The Appendix has links to the Resiliency Wheel map and other resources for resiliency and risk management.

Figure 4: Resiliency Wheel Map

Summary

In this chapter, long-term economic viability was defined including five successive goals that if maintained for the long run under changing economic conditions, result in strong economic viability for the present and next generation. A process was also defined for estimating the current strength and viability camp—Builder, Long-Hauler, or Guardian-Transitioner. Depending on the viability camp, various general future strategic directions were identified. Finally, analysis processes were offered for how to dive deeper into the components of long-term economic viability—Performance, Capacity, and Resiliency. Results of deeper analysis gives owners/managers information on where economic viability is being held back, and where management time has the potential to improve viability in the future.

Appendix: Analysis Resources and Tools

Following are a few resources for creating financial statements, ratios, and other analytical tools.

- **Worksheet 1: Limited analysis of viability based on answers to broad questions.** Worksheet 1 at the end of the Appendix can be used for those interested in a quick qualitative assessment of economic viability, or for situations where financial statements are not available. It is a limited analysis but may at least be a conversation starter for thinking about economic viability.

- **Performance (tools for creating and providing analysis of financial statements):**

  The "Developing a Farm Financial Model" website provides an explanation of the financial management flow of the farm business and includes three spreadsheets that enable the creation and analysis of financial statements (see gray box on the site titled "Developing Your Farm Financial Statements and Analysis"). Each spreadsheet accomplishes the outcome but is based on different starting information. farms.extension.wisc.edu/articles/developing-a-farm-financial-model

  The "Financial Statement and Analysis Spreadsheet Video Series" website includes a series of videos that explain how to use the spreadsheets. farms.extension.wisc.edu/articles/financial-statement-and-analysis-spreadsheet-video-series

  DuPont: The "DuPont Analysis: Making farm financial benchmarking easier and more meaningful" website includes an explanation and video of how to use and analyze the DuPont model. farms.extension.wisc.edu/articles/dupont-analysis

  Online Courses: The Farm Pulse is an online financial statement construction and analysis course. go.wisc.edu/farmpulse

- **Capacity**
  Capacity and Breakeven Evaluation spreadsheet farms.extension.wisc.edu/articles/is-my-farm-operation-big-enough

- **Resiliency**
  The "Risk and Building Better Resiliency" website includes an explanation and tools for evaluating risk and resiliency. farms.extension.wisc.edu/articles/risk-and-building-better-business-resiliency

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Reflection:

Do you have the financial statements to help you determine which financial camp you are in?

Setting a date and sharing that with someone else can help keep you accountable to finish the task. When are you going to work on gathering your financial statements and analyzing your financial camp?

The worksheet titled **Farm Finances and Decision Making** (p. 16) in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Worksheet 1: Determining Your Viability Camp Without an Income Statement

Circle one answer (10, 5, or 1) in each row below that best describes how well gross farm revenues can generally cover the following financial needs under normal operations and without hardship, extra borrowing, or external contributions.

		YES, Most of the Time	Approximately 60% of the time (3 of 5 years)	Seldom
1	Enough gross revenues to fully cover operating expenses, interest, and income taxes	10	5	1
2	The above plus enough remaining revenues to cover basic family living needs	10	5	1
3	All the above plus enough remaining revenues to cover a full return for family living equivalent to what owners could receive in a non-farm job consistent with their skills and experience	10	5	1
4	The above plus enough remaining revenues to cover maintenance, replacement, and modernizing of capital assets, particularly machinery and buildings (≈ 10% of machinery and 5% of buildings market value)	10	5	1
5	The above plus remaining revenues equivalent to approximately 5% of owner equity	10	5	1
		Score: Sum of 5 Answers: ___________		

Assessment:

- Score of 40 or greater indicates strong economic viability, “Builder” viability camp.
- Score between 23 and 39 indicates some vulnerability, “Long-Hauler” viability camp.
- Score less than 23 indicates weak economic viability, “Guardian-Transitioner” viability camp

Follow-up Check Question	Less than 40% of the time (less than 4 years out of 10)	40–60% of the time (4–6 years out of 10)	More than 60% of the time (7 or more years out of 10)
Given the knowledge of your operation and the economic environment that you believe will be in effect in the years ahead, how many years out of 10 are you confident that this farm operation has the capability to be profitable, grow owner equity, meet financial needs, and be generally resilient to risks that may occur?	**Guardian-Transitioner**	**Long-Hauler**	**Builder**

Getting Ready to Meet with Farm Succession and Estate Planning Professionals

By David L. Marrison, Professor and Field Specialist, Farm Management, The Ohio State University

The Cultivating Your Farm's Future Workbook for Farm Succession Planning in Wisconsin is an incredible resource to help your family plan for the transition of your farm to the next generation. Each section of the workbook is designed to help you have thoughtful family discussions about the future of the farm and how to best prepare the next generation to take over the complete management of the farm.

Additionally, these worksheets can be used to develop resource notebooks that can be used as you meet with professional advisors as well as by your family as they execute your estate upon your death. So, let's take a closer look at these notebooks.

Succession and Estate Notebook

The first notebook to develop is a succession and estate notebook. This notebook should include copies of the documents that your attorney and other financial and tax professionals will need to review as they help craft your plan. I would recommend getting a large three-ring binder and purchasing protective sheets that you can put inside the binder to place each document.

So, what documents should be placed in this notebook? Essentially, you will need to provide an accounting of all your assets and liabilities. For instance, if you own a 100-acre crop field, your attorney will need to see the deed and how it is titled. Having this documentation will help your professionals to develop a balance sheet for your estate as well as to review how each asset is owned, titled, and who will inherit each. Your attorney will also need to examine which of your assets have (or need to have) transferrable on death (TOD) or payable on death (POD) designations.

Here are some of the documents to include in this notebook:

- **Family Information** – Include a detailed list of your family. Include spouses, children (step, adopted), and grandchildren. Include other names of persons who should be accounted for in your estate plan.
- **Legal paperwork** – Include copies of existing legal documents such as power of health care attorney, living will, financial power of attorney, will, trust, and business entity documentation

including any operating agreements. Note that some of these documents may not be in place already and will need to be written as you meet with your attorney. Include any divorce or property settlement orders. Include any pre- or post-nuptial agreements that are in place. You can also include end-of-life planning documents (i.e., funeral planning).

- **Tax paperwork** – Include copies of any previously filed federal gift tax return forms.
- **Real estate documents** – Include copies of the deeds for your home (primary and secondary), rental properties, and farmland. Also include deeds for property owned by a business entity that you have financial stake in. Include copies of any mortgages. Also include copies of any legal easements or leases (land, oil and gas, solar, carbon) that are in place.
- **Financial accounts** – Include copies of the recent account statements for your checking and savings accounts. Include business accounts.
- **Investment accounts** – Include copies of retirement accounts, pension accounts, mutual funds, stocks, bonds, and other investment accounts.
- **Insurance** – Include any insurance policies you have. This includes life insurance policies, car vehicle insurance, farm insurance, disability, long-term care insurance, and home insurance.
- **Credit cards** – Include a copy of a recent account statement.
- **Farm asset list** – Include a list of equipment, machinery, and livestock. It is recommended to include a copy of the current depreciation schedule for these assets. Also include an inventory of grain and other ag commodities in storage.
- **Personal asset list** – Many of our personal assets are not titled. It is a good idea to include a list of personal assets such as computers, antiques, jewelry, books, tools, and special collections that you own. You may want to list who you wish to inherit each.
- **Liabilities** – Provide a listing of loans and other outstanding debts.

Additional items that can be included in this notebook include the account login and password for each account that you may have. It is also nice to include a list of your advisors and their corresponding contact information. This should include advisors such as attorney, lender, financial advisor, tax preparer, insurance agent, crop consultant, veterinarian, farm financial consultant, and other key advisors. It is also a great idea to include a listing of where important paperwork is located (if not included in your notebook).

Selecting Professional Advisors

Once you have your notebook compiled, it is time to engage legal and financial professionals to help you craft your succession and estate plans. If you do not have an attorney, financial advisor, or tax specialist, you will need to take time to research professionals.

So, what should you look for in professionals? First and foremost, you will want to work with professionals who you can trust, who understand the complexity of farm estates, and who will work to create a plan that fits your family. Unfortunately, there are some professionals who use a cookie cutter or a one size fits all approach. It is important that you interview these professionals to make sure they are a good fit. Remember, you do not have to hire the first lawyer you consult.

Section 3 of the *Cultivating Your Farm's Future Workbook* includes questions that you should ask as you interview potential service providers. Use the worksheets to evaluate their services and how they match with your needs. Most professionals provide a free initial consultation for you to get to know them and the services they provide better.

It is also a great idea to seek recommendations from friends, family members, or neighbors. Ask why they liked the professional and if they were happy with their work. You can also ask other service professionals for recommendations. You can also reach out to your local extension office personnel as your state farm management team may have a list of attorneys and other professionals who specialize in farm estates.

Here are some potential interview questions that you can ask as you interview professionals:

1. What are your qualifications/credentials/ training?
2. Do you work specifically with business succession and estate planning for farm families?
3. What continuing education have you participated in on this topic?
4. What will this service cost? What is the fee structure? Is it per hour or a flat fee for a finished plan?
5. Do you provide a free initial consult? If yes, how long is that meeting? Thirty minutes, an hour, unlimited?
6. Who in your firm will work on my behalf? Will you pass this task to a junior associate or paralegal or another person in your business?
7. How will we communicate and how often? By phone, email, or office visit? Will we communicate weekly or monthly?
8. How many of these documents have you drafted in the past?
9. Can you share names of other clients with similar needs that I might interview? Note that most professionals will need permission from clients to share this information, or they may say they cannot or will not share because all of their work is confidential.
10. How long will it take this work to be completed?
11. What information or documents will I need to bring to the first meeting to make our time most efficient?
12. Do you require meeting in your office? Or are you willing to travel for meetings?

As you visit with the professionals, be specific about what type of services you need. Many professionals will specialize in a specific area. So, while they are all professionals, they will bring different skills to the table. Remember you would not go to an eye doctor and ask them to do an open-heart surgery! So, make sure your professionals have experience in agricultural law. If you want guidance on accounting, financial analysis, or investment/retirement planning, you should ask if they offer these services. After meeting/interviewing the service professional, you should evaluate the ease you experienced while talking with them. You should feel comfortable and respected when working in a close and confidential relationship with the professional.

Farm Resource Book

In addition to the succession and estate planning notebook, I also recommend developing a farm resource book. This notebook includes maps, pictures, and measurements of where all the different water, electric, drainage and septic lines are. I personally found out where the underground electric line at the farm was the hard way! Yep, we hit it with a backhoe digging up a waterline. The location of this electric line was one thing I was not able to learn from my dad before he passed. After all, we never had a problem with it, so we never discussed it.

You can also include tile maps for the farm as well as specifics on the history of the barns, farm equipment, and water wells. Also include existing crop leases, utility easements or leases, USDA Farm

Service Agency or Natural Resources Conservation Service paperwork, and copies of any natural resource lease (solar, carbon, oil, and gas leases).

Encouragement

While it takes an incredible amount of time to review each worksheet and develop your two notebooks, know the work that you are doing today will serve as a blessing for the next generation. Follow the old adage: Plan your work and then work your plan.

Reflection:

How are you going to set aside time to find and organize your succession and estate planning documents?

Can you set aside a specific hour or two every month, for example: the third Thursday at 8:00 a.m.?

Can you develop a checklist of what you need?

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The following worksheets in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

- **List of Advisors and Important Documentation, pp. 18–22**
- **Personal Net Worth Calculation Worksheet, p. 13**
- **Interviewing Professionals for Farm Succession Planning, pp. 54-56**

Values, Vision, and Intentions for Farm Succession

By John Baker, retired attorney, Iowa State University Extension Specialist and former Director of the Iowa State University Beginning Farmer Center, and Joy Kirkpatrick, Farm Succession Extension Specialist, University of Wisconsin–Madison Division of Extension

All businesses, regardless of size, the product produced, or the service offered, have three components: assets, management, and income. A farm family business consists of family-owned assets that are managed by the family to produce income for the family. If the current generation's plan is to transition the farm family business to a succeeding generation, the transition must include the family-owned assets, the family management, and the income for the family.

Assets can be defined as tangible or intangible. Tangible farm business assets include land, equipment, facilities, livestock, and tools. Intangible assets include leases, ownership interests in the farm family business, good will, and reputation. The value of tangible assets can be defined as their fair market value. It is more difficult to value intangible assets as the fair market value may be difficult to determine. This does not mean that tangible assets are more important or valuable than intangible ones. Reputation and goodwill may lead to business opportunities that wouldn't be available otherwise.

Transitioning Assets

Six fundamental questions concerning transitioning assets to a succeeding generation must be thoroughly evaluated and answered. The first three questions, about the owner generation, gather the information that is needed to answer the last three questions, which are about the succeeding generation.

1. What assets are owned by the current generation?
2. How does the current generation own the assets?
3. What is the net fair market value of the assets?
4. Who in the succeeding generation will own the assets?
5. How will the succeeding generation own the assets?
6. When will the succeeding generation obtain ownership of the assets?

The first question is answered by taking an inventory. The inventory should include real property: land and anything affixed to the land. All other property is personal property. Personal property includes tangible property and intangible property. Tangible property includes machinery, equipment, tools, livestock, and other physical property. Intangible property includes leases, investments, retirement plans, and other nonphysical property.

In answer to the second question, assets may be owned by a sole owner, by joint owners, by common owners, by businesses entities, or trusts. State law will govern the length of time that a trust may exist and control the assets placed in the trust. Only the degree of ownership of the assets can be transferred to the successor.

The third question is answered by determining fair market value. It is determined by an arm's-length transaction where neither the seller nor the buyer is compelled to act. The net fair market value is determined by subtracting any debt that is attached to the property.

The fourth question concerns to whom in the succeeding generation the farm business and personal assets will be transitioned. To answer that question, consider these questions: Has a successor to the farm businesses been identified? Is the successor actively involved in the farm business? Are there multiple successors to the farm businesses? If there are multiple successors, are they actively involved in the farm business?

Think about these questions to answer the fifth question: Will the successor(s) own the assets as sole owners, joint owners, or common owners, or will the successor(s) own interests in the business entity(s) that own the assets? Will the successor(s) be the trustee(s) administering the trust?

The final question is: When will the successor(s) obtain ownership of the assets? Once again, thinking through some other questions can help to answer that. Will it be during the life of the current owning generation? Will it be immediately upon the death of the current owners? Will it be upon the death of a joint or common owner? Will it be at a date set forth in a trust document? If the business assets are divided between the business successor(s) and individual/individuals not involved in the business, how will the successor(s) obtain ownership of those assets? Will the successor(s) pay fair market value for the assets, or will there be a discount in the purchase price? Will they have a first option to buy, a right of first refusal, or will there be buy/sell agreements in place?

Transitioning Management

The second component of a family farm business is the management of the family-owned assets. The management component has two constituent parts: structure and control. Concerning structure, is the farm business a sole proprietorship, a partnership, a business entity, or multiple entities for a separate business or separate businesses? Business entities are used to manage risk, enhance financial management, and concentrate management of each entity.

The second constituent part of management is control. There are important questions to consider about control. Who makes the decisions concerning the business and how are such decisions made? Does one individual make the decision or are decisions made by a process of consultation and collaboration? Who participates in making decisions? What factors are considered in making decisions? Who makes the short-term and who makes the long-term decisions?

Transitioning Income

The last component of a family farm business is income. How is the income distributed to those who are involved in the farm business? Salary, hourly wage, profit sharing, fringe benefits, and expense reimbursement are methods of income distribution. How are expenses allocated and who is responsible for the payment of those expenses?

Is the income used to expand the business, fund retirement for the current owning generation, pay down business and personal expenses, or saved for unanticipated expenses?

Values, Vision, and Intentions Are the Lynchpins to Planning

Each of the three components (assets, management, and income) as described above are technical and transactional in nature. In many ways they describe two of the three steps in the three-step process outlined in the Cultivating Your Farm's Future workbook. The descriptions above provide very brief definitions of the "Where is the farm now?" step and also the very final steps in "How do we get there?" However, the key step that is often overlooked is the middle step of "Where do you want to be?" This second step is the lynchpin to the farm succession planning process. It requires strong communication skills and deep reflection that takes many farm owners and family members out of their comfort zones.

To create a sustainable succession plan, the family and farm members can use their values, intentions, and vision as a basis for decision-making and informing the transactional aspects of the plan.

Values

Values are single beliefs, limited in number, and shaped by our experiences and relationships. Certain core values remain unchanged over long periods of time and have a major impact on decision-making. When values are identified, decisions become clearer because the focus of the decision maker is on what is important over a longer period of time.

A value system is an enduring organization of beliefs that define and set individual conduct. Values and value systems tend to link people by creating and encouraging commonly shared experiences and relationships and the standards by which we make judgments about ourselves, others, and situations.

While core values may not change over time, their priority might. Past decisions, made on the priority values at that time, may no longer reflect the current priority values. It is not unusual to have conflicts between values, because attaining one value may mean that another value becomes unattainable.

Many core value activities have people circle a set number of words and prioritize them. The activity in Cultivating Your Farm's Future suggests additional steps to clarify core values further. This activity asks people to write an outcome statement and list a set of behaviors that demonstrate the value. This allows further and deeper understanding of each family member's definition of living their priority values.

Vision

A Japanese proverb provides a great perspective about creating a vision for your farm succession: "Vision without action is a daydream. Action without vision is a nightmare." Developing a shared vision for farm succession is a first action to changing it from a daydream to a concrete idea for the future. You may find it daunting to have a blank sheet of paper or a blank screen in front of you and be asked to write a paragraph describing your vision for your life and the farm business. It can be helpful to start by answering a few guiding questions about your daily tasks, responsibilities, and income sources for your household expenses. For the business side, questions about size, enterprises, decision-making, and ownership can help organize farm members' ideas about the next 3 to 5 years. If goals, visions, and timelines for the farm don't match, much more discussion is required to determine if a succession plan is possible at this time.

Intentions

One definition of the word intention is: "An idea that you plan (or intend) to carry out. If you mean something, it's an intention. Your goal, purpose, or aim is your intention. It's something you mean to do, whether you pull it off or not."
(from www.vocabulary.com/dictionary/intention)

Farm owners and successors can have lots of intentions about transitioning assets, management, and income. Some may be more important than others. And they can be different within couples and between generations. Each member of the farm should examine their own intentions, discuss them with their spouse/partners, and then share them with the other generations.

Some of the intentions or goals of the owner generation may revolve around the legacy of the farm. They may want it to continue to be owned by the family. Or it may be more important that it continues as a farm, no matter who owns it. The owner generation may be dependent on the assets for their later years, and they may also want to provide a discounted price to the successor. While these intentions may conflict, they do allow for further discussion if they are identified early in the process. Examining intentions can also uncover inheritance distribution goals.

For the successor generation, evaluating intentions can be especially important if there are spouses or partners coming along with the successor. Is the spouse or partner willing to make financial goals that prioritize the farm, or do they have other financial goals that need to be considered as they plan their future together? The successor can evaluate their intentions around developing their management skills. Another area of friction that can be identified during this phase is the goals of the individuals for vacation time or time away from the farm. It may seem a trivial topic when considering the transition of assets, management, and income, but not talking about time away can derail the best transactional planning.

For many farms, starting with a vision development activity helps the members with their first meaningful conversations about farm succession. Developing intentions and core values can be used as tension points arise. There is no one-size-fits-all in succession planning. Each farm can decide which activities or conversations seem most helpful to them in any order; however, completing these three activities and having intentional conversations around everyone's answers are key steps to fully understanding "where you want to be" that can better inform the third step in the process: "how to get there."

Reflection:

Do you have your vision and intentions around your farm succession written down?

Have you shared your vision and intentions around your farm succession with your spouse, business partners, and family members?

How do you plan to share your ideas with others?

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The following worksheets in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

- **Core Values Clarification Exercise, pp. 27–30**
- **Intentions for the Owner Generation, pp. 24–25**
- **Intentions for the Successor Generation, p. 26**
- **What Does Your Future Look Like?, pp. 31–32**

Planning for Retirement

By Steven Richards, Clemson University, Agribusiness Senior Extension Associate, Farm Business Management

Retirement planning doesn't have to be as daunting as it sounds. For many farmers, the most challenging part is acknowledging that they may have to participate in activities other than farming. This is not an easy transition, but thousands of farmers will tell you that there is life after farming; there is life during retirement. The first step in this whole process is simply setting a retirement date. Then you can start thinking about what you want to do after you retire.

Set a Date!

Retirement planning starts by picking a date for retiring from day-to-day farm duties. Don't get stuck in what I call the "5-year trap." The 5-year trap is a common syndrome among farmers and non-farmers alike. The 5-year trap is this: When I ask a farmer when they will retire, they say, "Oh, in 5 years." When I ask the same question 5 years later, can you guess what the answer is? "In 5 years!" By not setting a firm date, retirement planning may never get done.

Sometimes, people hesitate to retire because they want to see certain things happen before they hand the reins over to someone else.

Discuss with your family what you want to do on the farm before you retire.

- Do you want to make sure the farm continues to the next generation?
- Do you want to continue working during retirement?
- What needs to occur for you to feel comfortable letting go of daily operations?
- Do you enjoy what you are doing now?
- How will you slow down and back off from your day-to-day responsibilities?

What do you want to do after you retire?

One size does not fit all in retirement planning. Studies have shown that your attitude about retirement is the key to how happy you will be in retirement. So, let's dispel some myths about retirement!

Lifestyle myths:

- Retirement is when you stop working.

- Your retirement will be short.
- Retirees aren't interested in self-improvement.

These lifestyle myths perpetuate the idea that retirement is a "ride away into the sunset" event. This view of retirement is not productive. Instead, think of retirement as a time to enjoy those activities you never had time for when you were working: travel, visiting relatives, hobbies.

Also, if you enjoy working, there is no reason to stop working just because you don't have the daily responsibilities of running the farm. Many people see this as an opportunity for a second career: volunteer work, local politics, mentoring younger farmers, helping a neighbor, consulting, or starting a new farm-based business.

Financial myths:

- You need millions of dollars to retire.
- Happiness is all about money.
- You can (or cannot) depend on Social Security Retirement.

There are many financial myths about retirement. The best way to determine your retirement needs is to create a budget that reflects your specific income and expenses during retirement. There are no financial "rules of thumb" that apply to everyone.

Discuss with your family what you want to do after you retire.

- What kind of hobbies do you enjoy?
- Do you still want to work, even if it is not on the farm?
- Do you still want to work on the farm but do something different?
- Where do you want to travel?
- Do you want to spend more time with your family?

Retirement Income and Expense Building

Stock market analysts and others on Wall Street make it sound like you need a mint to retire, but this may not be the case. The only way to find out is by drafting a retirement budget. A retirement budget is simply retirement income minus retirement expenses.

Retirement income from non-farm sources

Before we look at any income derived from the transfer, sale, or lease of the farm, let's concentrate on the other sources of retirement income available. Most of the sources of income not derived from farm assets would be from Social Security and retirement savings accounts.

Social Security Retirement

Social Security Retirement benefits still have value—21 percent of married couples and 45 percent of unmarried individuals rely on Social Security payments to provide 90 percent of their retirement income. In general, there are four things that you need to know about Social Security

Retirement benefits:

1. You need 40 work credits to receive Social Security Retirement benefits. If you were born before 1929, you might need fewer. In 2024, to obtain one work credit, you must have paid Social Security (self-employment) taxes on $1,730 of earned income. You can earn up to 4 work credits a year (paying Social Security taxes on $6,920 of earned income).
2. When you claim your benefits can affect how much you receive each month. You can claim Social Security Retirement benefits as early as age 62, with reduced monthly benefits. Full retirement age (with full benefits) is currently 66 and 10 months and will gradually increase to age 67 for people born after 1960. You can increase your monthly Social Security retirement income by waiting until age 70 to start collecting benefits.

3. If you elect to receive Social Security benefits earlier than the full retirement age, you are limited in how much income you can earn without a penalty. Suppose you are collecting retirement benefits before your full retirement age. In 2024, you may only earn up to $22,320 per year before your retirement benefits are reduced. Once you reach your full retirement age, you will not have any earning limits.
4. It is hard to play "catch-up" with Social Security. Suppose you are nearing retirement, and you haven't paid much into the Social Security system. In that case, it is tough to increase benefits much by paying extra into the system at this stage in your life. You may be better off by putting more money aside in another retirement account. See a financial advisor about your options in this instance.

Calculate your estimated Social Security payments

The best way to find out your Social Security benefits is to find your most recent Social Security statement. You should receive this statement in the mail every year. If you have not been receiving a Social Security statement, you can find out your benefits by contacting the Social Security Administration at ssa.gov or 1-800-772-1213. Be sure you calculate your retirement benefits as of the date you wish to retire. Remember that benefits will increase the longer you wait for retirement.

Annual Benefits, Age 62	$ ____________	
Annual Benefits, Age 65–67	$ ____________	**A**
Annual Benefits, Age 70+	$ ____________	

Income from Retirement Plans

Suppose you have invested in other retirement accounts such as an SEP IRA, SIMPLE IRA, traditional IRA, Roth IRA, profit-sharing plan, 401(k), or a pension fund. In that case, you should calculate how much money you can withdraw each year. Most likely, you have someone administrating your retirement plan—speak with them to find out how your program works. In general, there are three points that you need to know about most retirement plans:

1. There is a penalty for early distributions from retirement plans. An early distribution is when you withdraw money from your plan before you reach age 59.5. There are instances where the penalty may not apply, such as paying for college expenses or buying a first home.
2. Make sure that the beneficiaries named in your retirement plan are accurate. When you die, the money in the plan goes to the listed beneficiaries, not whom you name in your will.
3. Minimum draw. Once you reach the age of 72 (or 70.5 if born before July 1, 1949), you must withdraw a minimum amount of money from an IRA.

Calculate your estimated retirement savings withdrawal per year.

If you have managed retirement accounts (IRAs, SEPs, annuities), call your representative for estimated annual retirement income as of your projected retirement date. If you do not have your retirement funds managed by an outside party, you will have to estimate the amount of money you will withdraw per year.

Annual Withdrawal $____________ **B**

Other Sources of Income

What other sources of income do you have that may continue after you retire from farming: rental properties, leases or royalties from mineral rights, savings accounts, or other nest eggs? Are you planning on working part time? Are you starting another farm-based business?

Calculate annual income from other sources.

How much other income will you generate during your retirement? Estimate the amount of annual income that these sources will provide.

Annual Income from other sources $_________ **C**

Total of all non-farm retirement income:

$ ________________________ **(A + B + C)**

Selling, Leasing, and Transferring Assets for Retirement

What do you think?

Depending upon your goals and your financial situation, you may decide to sell, lease, or transfer assets as a retirement strategy. Maybe you have already made up your mind. If not, the charts below may help you think about your options a little better. Check off how you feel in the boxes below. Which options have the most checkmarks?

How much do you agree?	Low	Medium	High
Cash needed right now			
Desire to move on			
Stress levels			
Desire to avoid risk			
	Transfer or lease	All 3 options may work	Sale

In case the last chart didn't help you decide, let's flip the questions around and see how you feel about these four questions:

How much do you agree?	Low	Medium	High
Continue the farm for the future			
Avoid paying a lot of taxes			
Increase income possibilities			
Risk does not bother me			
	Sale	All 3 options may work	Transfer or Lease

Sell, Lease, or Transfer?

Comparing Risks and Rewards

The primary decision boils down to risks and rewards. It is possible to increase retirement income and reduce income taxes by transferring or leasing the farm operation. However, the risks associated with doing so can be higher than simply selling the farm and walking away. Suppose you are a landlord or a retired farm owner drawing an income from the farm. In that case, your retirement income depends upon the success of the next generation or the renter. On the flip side, if you need more retirement income than a sale will provide, you may have to explore these other options to increase the amount of retirement income.

Comparing risk and reward	Risk	Reward
Sale	*	*
Lease	**	**
Transfer to next generation	***	***

Reflection:

What do you want to do before you retire?

Leave some time to accomplish the things you want to get done on the farm and leave time to do those exciting post-retirement activities! Make a timeline of when you think the best retirement date would be.

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What is your retirement date?

Today's date: ______________________________

Retirement date: ___________________________

The following worksheets in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

- **How "Retired" will you be?, p. 33**
- **How "Retired" will you be? — Follow-up, p. 43**

References:

This chapter is adapted from the Cornell University publication, *Using Farm Assets for Retirement,* by Steven Richards and NY FarmNet.

Sometimes Right Isn't Equal, Sometimes Equal Isn't Fair

By Shannon L. Ferrell, M.S., J.D., Professor, Extension Specialist – Agricultural Law, Oklahoma State University Department of Agricultural Economics, and Garrett Reed, M.S., J.D., Associate Attorney McAfee & Taft, P.C.

Introduction: The S Lazy H

This chapter comes with prerequisite homework. If you haven't listened to the song "S Lazy H" by Corb Lund, stop reading this chapter and go do it, right now.[1] Listen closely to the lyrics.[2] Lund stated in an interview that the song wasn't *one* true story, but that it is "an amalgam of stories from people—it's essentially a true story because it happens a lot."[3] Truer words have never been said. The "S Lazy H" sings a ballad of the challenges of trying to split up a working ranch between a child who wants to continue the operation, and an off-farm child who wants to realize the value of their inheritance—an undivided half share with their ranch sibling. Listening to the song can be an emotional experience for a farmer or rancher going through the transition process because the song is simply heartbreaking in its accuracy.

Can an equal division of farm assets ever work?

In "S Lazy H," an on-farm ranching child (let's call him "Farm Kid") receives an undivided one-half interest in the ranch after their father's ("Pa") death and their mother's ("Ma") disability, with the other one-half interest going to their off-farm sibling ("City Kid"). City Kid wants to realize the value of the inheritance and wants to sell the ranch. Wanting to keep the ranch intact, Farm Kid tries to purchase the interest but "no cow-calf operation carries that kind of cash… I'm afraid I had to sell 20 sections of the S Lazy H." Needless to say, the ranch doesn't make it.

But is the dissolution of a farm or ranch the inevitable result of splitting the operation into undivided interests? We sought to find out. Since finding real farms and ranches and tracking them through a generational transition poses a generational task itself, we tried the next best thing and simulated an operation with the best fidelity we could.[4] Using Kansas Farm Management Association (KFMA) data from real farms to develop a "prototypical" winter-wheat/cow-calf operation, we defined an asset base of land, equipment, and livestock along with a balance sheet, income statement, and cash flows. Initially focusing on the southern Great Plains, a winter-wheat and cow-calf operation served as our representative farm. We then vetted our operation with several commercial agricultural lenders who confirmed that the operation represented a farm typical of a full-time commercial rancher. Then, using KFMA net farm income data spanning 20 years, we built a computer simulation that ran the farm through a 20-year period of the ups and downs in farm income.

All of that laid the foundation for the centerpiece of the work: Could such an operation generate enough income to allow one Farm Kid who inherited a one-half undivided interest in the operation to buy out one City Kid's undivided one-half interest? We played out two variations on this theme—one in which the on-farm heir used commercial loans to make the purchase, and one in a "family friendly" deal with an installment sale over 20 years and the lowest interest rate allowed by the IRS. In other words, could the farm survive this approach, or was it doomed to the fate of the S Lazy H?

Over the course of literally thousands of simulations, the farm survived precisely zero times. Never. Sure, there were years here and there where the farm generated enough income to service the considerable debt demanded by this strategy, but inevitably the variability in farm income would yield enough bad that there was simply no way to make it work. The farm, and Farm Kid, would always be required to exhaust all of the farm's net income and incur additional debt or nonfarm sources of income to sustain the payments.

Now, before you think to yourself, "Yeah, but that was a cow-calf and wheat operation in the southern Great Plains… I'm a (take your pick: corn, soybean, swine, dairy, vegetable) operation and we cash-flow WAY better than one of THOSE operations," you should know that since the initial research we have run the model with everything from Iowa corn operations to Utah dairies and the results of this strategy are almost always identical: The farm simply does not generate enough net farm income to allow for the purchase of half of its equity back from City Kid without a significant contribution of nonfarm income either from off-farm employment of Farm Kid or their spouse, a generous life insurance policy on the life (or lives) of the parents, or substantial off-farm investments that can be liquidated to make the purchase.

Despite all this, over 64 percent of farmers and ranchers choose this strategy that seems doomed to failure, at least if "failure" means the dissolution of the farm asset base. How do we know at least 64 percent of farm operators choose this approach? Because 64 percent of farmers and ranchers don't have any form of estate plan in place,[5] and this is also the exact scenario that would come about through the intestate succession laws that govern estates if the person who died had no will, trust, or other estate tools.[6] Further, we know this to be the approach of *over* 64 percent of farmers and ranchers because many of them affirmatively choose this strategy and implement it in their estate tools.

The Conflicting Economic Interests of Farm Kid and City Kid

To this point, the discussion of giving a farm to Farm Kid and City Kid in undivided interests has carried an implied assumption: Farm Kid inevitably will be forced to buy out City Kid. Why do we make that assumption?

Let's look at our situation from a different perspective. When Ma and Pa give the farm in undivided interests to Farm Kid and City Kid, they have essentially given each of them a share of stock in a business.[7] Assume Farm Kid functions as the CEO of the farm business and makes both the day-to-day and strategic decisions for the business. Let us also consider there are precisely two ways to make money from a stock: (1) Receive dividends that are distributed to the shareholders, or (2) sell the stock to realize the value of the stock's equity value. Further, assume that (gasp!) Farm Kid and City Kid loved Ma and Pa, they love each other, and they want to see the farm continue operating intact. Recognizing this latter fact, City Kid would be content with receiving a dividend representing a reasonable return on their equity given the level of risk involved as they consider the "opportunity cost" of leaving their investment in the farm.[8] City Kid really doesn't want to sell their interest and wants to see the success of the farm and Farm Kid, so City Kid views selling their interest in the farm as a last resort. One way or another, City Kid has placed their economic fate in the hands of Farm Kid and Farm Kid's decision on declaring a dividend for the farm.

Thus, let us turn to Farm Kid. Farm Kid also has no desire to sell their interest, thus to an extent Farm Kid is dependent on dividends as well for their economic return from the farm. However, Farm Kid is also an employee of the farm and its manager, and thus likely receives compensation for those roles out of farm revenue in the form of a family living expense draw. In lean years Farm Kid may reduce that draw, hoping to make up for it in better years. Thus, Farm Kid's economic incentives are to manage risk and increase profitability (and note to this point those incentives align with City Kid's as well).[9]

Now, let us assume the farm has a good year. Production is abundant, commodity prices are good, expenses are manageable, and a profit is made. Yes, a dividend could be declared, but gosh, wouldn't it be good to replace aging equipment, purchase a piece of land that would benefit the operation, or pay off debt? Any one of those things should increase the farm's long-term profitability or at the very least reduce its risk, but paying a dividend just takes cash out of the operation. Further, note that Farm Kid will likely take a family living draw thus providing them at least some form of economic return from the farm, while City Kid has none. Thus, in a good year, no dividend is declared, and this is not out of malice; it is simply Farm Kid behaving as a rational economic actor.

Conversely, consider a bad year. Crops fail, commodity prices are bad yet input prices are still on the rise, and the farm is trying to manage its losses. Farm Kid tries to reduce cash outlays anywhere possible, likely making minimum debt payments (and perhaps digging deeper into the operating line of credit), trying to defer equipment replacements, and perhaps reducing their family living draw. There is absolutely no incentive for Farm Kid to declare a dividend under such circumstances.

So, to recap:

> In a good year for the farm, City Kid will not receive a dividend.
>
> In a bad year for the farm, City Kid will not receive a dividend.

This brings us back to the fact that there are two ways to make money from a stock… and we have now shown City Kid is actually down to just one: sell the stock or simply face the fact their farm interest is a stranded asset. They have no desire to sell it to an outside party (and what outside party in their right mind would buy into a potential family feud) so they sell to Farm Kid, setting up exactly the scenario with zero chance of success. All of this came about without any ill will among the parties; everyone involved simply followed their economic incentives. Further, it was Ma and Pa who put them in this situation. Instead of confronting the dilemma of crafting an equitable division of assets, they instead foisted the issue onto their children.

Why do people frequently pick a strategy with no chance of success?

So why would approximately two-thirds of farmers and ranchers choose this "split it down the middle" strategy? You have probably already heard the explanations. "Oh, but I love my kids equally, so I have to give them exactly the same thing!" "Treating everyone the same is the only fair way to do it!" "Doing it this way is the only way to avoid a fight!"

In all fairness to Ma and Pa in these situations—whomever they may be—their hearts may well be in the right place. From their perspective, they are trying to avoid favoritism toward one child and to demonstrate their equal love toward their children. In their mind an equal division of assets accomplishes this, hence "I love my kids equally, so I have to give them exactly the same thing!" and "Treating everyone the same is the only fair way to do it!" Both of these sentiments come from a good place, but they miss the mark. As for avoiding a fight, an equal division of assets represents a strategy that is virtually *guaranteed* to have the opposite effect and to drive a wedge in the family. That is because it is a strategy based on a fundamentally flawed assumption: that *equal* treatment of the parties is also *equitable* treatment.

The Confusion of "Equal" and "Equitable"

Consider the definitions of these two words:[10]

Equal: of the same measure, quantity, amount, or number as another; like in quality, nature, or status; like for each member of a group, class, or society; regarding or *affecting all objects in the same way*; impartial

Equitable: dealing *fairly* and equally with all concerned

To put it as simply as possible, *equal* is "identical," *equitable* is "fair." And to bring us back to the title of this chapter as Corb Lund stated it, "sometimes right isn't equal, sometimes equal's not fair."

Let's consider Lund's song again. As you listen to it, you see that Farm Kid had spent their entire life on the ranch, working alongside Ma and Pa, while City Kid had pursued a profession somewhere else and had little to do with the day-to-day ranch operations. But let's put some numbers to it: let's say over the course of 20 years of operating alongside Ma and Pa, Farm Kid had helped double the net worth of the farm. To be sure, some of this growth is attributable to Ma and Pa's efforts, but by the same token some of it is also attributable to Farm Kid. None of that growth is attributable to City Kid since they have made no contributions of labor, management, or invested at-risk capital. Knowing this, ask yourself: is it *fair* that Farm Kid and City Kid receive *equal, identical, undivided* interests in the farm? Your gut probably immediately answers "no."[11]

The Challenges of Equitable Transitions in Agriculture

"Ok, I'll grant that," you're thinking, "but does that just mean City Kid gets disinherited? That doesn't seem *equitable* either!" Your gut is right here, too.

To illustrate why an equitable transition in agriculture pose so many challenges, consider a completely different example. Take the farm completely out of the equation: Pa works for an accounting firm and Ma is a doctor working for a local hospital. They have investment accounts through their respective employers along with some life insurance. Their estate plans call for their two children to receive equal amounts of these investments. What does your gut tell you about this arrangement? Our guess is it probably feels just fine.

Further, we guess two main factors contribute to this. First, this scenario just divides fairly liquid financial assets, not an ongoing business upon which at least some of the family depends for their economic wellbeing. Second, you probably recognize an implicit principle: what is earned is earned, and what is a gift is a gift. Here, there's no suggestion that either child "earned" anything—everything given to them by Ma and Pa is a gift in every sense of the word, and it makes sense to make equal gifts.

Intuitively, by examining these two scenarios, you have deduced the two core challenges surrounding the "equal versus equitable" problem in a farm transition. If Ma and Pa had significant nonfarm wealth (that is, wealth held in assets that were not actively used by the farm in its operations)— perhaps even *equal* in value to the farm assets, they might simply give the farm assets to Farm Kid and the nonfarm assets to City Kid. However, farmers often reinvest what distributions they take from their operations in the farm,[12] limiting the amount of nonfarm financial assets available to try to "balance" estate distributions to Farm Kids and City Kids.[13]

Thus, the first core challenge is this: *In many cases, the overwhelming majority of assets held by Ma and Pa are business assets vital to the continued operation of the farm.* If we give Farm Kid and City Kid equal and undivided interests in these assets and effectively force Farm Kid to buy out City Kid in order to keep the assets together, we place Farm Kid in the economically untenable position discussed above. On the other hand, if the parties decide to sell some of the assets to an outside party to realize their cash value, the farm has lost potentially vital production assets. In an ideal world, Ma and Pa would have enough nonfarm assets that they could make what they felt was a good estate gift to City Kid, and enough farm assets that they could gift to Farm Kid to maintain a viable farm operation, and everyone would feel content with those gifts. But we don't live in an ideal world. Land represents just one critical challenge in the calculus of this problem: it is illiquid, it's not readily divisible, it's vital to the operation, and it represents over 82 percent of the US farm and ranch balance sheet's asset value.[14] We'll discuss how to address this without disinheriting City Kid below.

The second core challenge is this: *What is earned is earned, what is a gift is a gift, but a lack of transparency can blur the line between the two.* If you tell your child "Mow the lawn and I'll give you 10 dollars," and your child then mows the lawn, they have *earned* that 10 dollars; it's not a gift. Conversely, if you give your child 10 dollars in their birthday card just because you love them, that is a *gift*. These may seem like elementary examples, but they help us frame the issue in the context of a farm transition. If Farm Kid works on the farm, how are they compensated for their work? In other words, what have they *earned*? Were they compensated at the full fair market value for their labor, management, and contributions of equipment or other assets? If they were, then one could argue Farm Kid has already received what they *earned*, and whatever they receive from Ma and Pa in their estates is truly a *gift*, just the same as anything that is given to City Kid.

On the other hand, if Farm Kid has been paid less than the full fair market value for their labor, management, and asset contributions—almost always under a "someday kid this will all be yours" or "sweat equity" arrangement (which is never, ever memorialized in writing), they may well have an expectation that they get something "extra" in Ma and Pa's estates because *they earned it*. And if Ma and Pa agree, they give Farm Kid more than City Kid (and again, almost always without explaining *why* to City Kid) leaving City Kid at best uninformed about the reason for the unequal (but perhaps equitable) treatment, or at worst resentful at their treatment.

This underscores the importance of transparency in the transition planning process. Sweat equity arrangements invite disaster because none of the parties have a clear understanding of what is *earned* and what is a *gift* and are thus confused (or resentful, or both) by what they receive especially in comparison with the other parties. On the other hand, if Ma and Pa explicitly establish a value for Farm Kid's contributions and either pay that value or recognize it by transferring ownership (perhaps in the form of stock or ownership of specific assets), those items are clearly established as *earned*.

So what can be done?

Thus far our chapter has laid out numerous challenges and obstacles, but what about solutions? The good news is there are absolutely tools and strategies Ma and Pa can use to bring about an *equitable* transition of the farm, leave impactful financial legacies to all their children, and even strengthen family bonds rather than strain them. This publication contains numerous resources that can help, but in very brief summary we want to emphasize six important strategies for dealing with the "equal versus equitable" issue.

1. ***Have the talk:*** Don't let Farm Kid and City Kid wonder about what is earned, what is a gift, what you value, or how you feel. Communicate, communicate, communicate! We recognize this may be hard since farm families may sometimes be inexperienced in telling those around them how they feel (unless you include yelling over the radio at the family member driving the grain cart as "telling them how you feel"). Start by just telling them that you love them! Then tell them that you are working to develop a plan to make sure the farm can successfully transition to the next generation. Ask them what their vision for the future of the farm is, and what role they see themselves in as part of that future. If they are

not actively involved now, do they think they would want to become involved? How do they think contributions to the farm should be valued, and what kind of contributions are they willing to make? Asking these and other questions gives all the stakeholders involved a chance to start thinking about the issues involved in a transition and invites them to formulate solutions as opposed to simply being upset if a solution is forced upon them.

2. ***Explicitly and transparently recognize the market value of Farm Kid contributions:*** As mentioned above, establishing an explicit value for Farm Kid contributions of labor, management, capital, and/or assets is critical for transparency to everyone involved. If those contributions are being compensated at a value below fair market value, it may be time to increase compensation or to make equity transfers as added compensation (and creating an operating entity such as a corporation or LLC might facilitate this). On the other hand, if it is simply not possible to compensate those contributions at their fair market value, it is time to consider the financial performance of your operation. Is it underperforming for some reason? Are their efficiencies it could gain or unnecessary expenses that could be eliminated? Or is it simply not financially viable standing on its own without support from nonfarm income? This may be a difficult self-examination for a farm to undertake, but it is also a vital one.

3. ***If the value of land is an obstacle to an equitable transition, "take it out of the equation":*** As mentioned above, farm families may not have an abundance of nonfarm assets to transfer to City Kid, land may be a significant part of the farm's value, and all other things being equal, the farm would prefer to keep owned land in the asset mix versus selling it. So, what is a farm family to do? One approach is to determine what nonfarm assets *are* available. Have Ma and/or Pa held off farm employment that provided retirement benefits like a 401(K) account? Have they saved in IRAs, annuities, CDs, or other investments? Do they have life insurance? Could some combination of those assets be used to provide a value to City Kid with which Ma and Pa are comfortable? If not, would it be economically feasible to purchase life insurance or secure another investment that might help transfer value to City Kid while making sure Farm Kid has access to the assets needed to keep the farm economically viable and avoid forcing Farm Kid to buy out City Kid? Alternatively, if there is no way around transferring land to City Kid, is there a way to make sure the land remains a productive asset for the farm without undue financial burden? One way to accomplish this may be to place the land in an entity (such as a trust or LLC), transferring interests in the entity to Farm Kid and City Kid, and establishing a long-term lease whereby (a) the farming operation pays fair market value rents for access to the land and (b) the rents are distributed to Farm Kid and City Kid. Thus, City Kid gets a distribution (a "dividend" as it were) from the land and Farm Kid gets affordable access to the land since, in effect, they get a "rebate" in the form of their distribution. This arrangement ties directly into the next strategy…

4. ***If parties are going to share an interest, find a way to align their economic incentives:*** As discussed above, Ma and Pa often put Farm Kid and City Kid on a course for disaster because they force them to share an asset when their economic interests are in direct opposition to one another. Putting aside the inherent challenges in telling two or more human beings to share anything,[15] all parties would likely be better served by aligning their interests. For example, if Farm Kid and City Kid are to share in the farm assets, create an operating entity with a set of bylaws that includes at a minimum (a) clear procedures for decision-making, (b) an objectively calculated procedure for declaring and distributing dividends, and (c) a buy-sell agreement giving the parties a way to exit the business but ensuring that the purchase of an exiting member's interest can be accomplished

in a way that is affordable to the entity.

5. ***Give people a voice and a choice:*** An entire body of scholarship has developed around a practice called "deliberative democracy," which is the process of forming public policy through a dialog process that actively engages as many stakeholders as possible in the decisions that impact them. There are lessons to be learned for application to the farm transition process too. We should involve all our stakeholders in our discussions and respectfully hear what they have to say. If a party has been involved in a decision and felt like they had a chance to be heard and were respected in the process, they are more likely to accept the outcome of the process even if it was not their specific desired outcome.[16] We should also think creatively about solutions and give people some agency in choosing their path. Human beings crave choice, and giving the stakeholders in a farm the opportunity to have some choice in their future gives them buy-in for accepting the outcome of the process and taking ownership of their choice. For example, did Ma and Pa ever give City Kid the chance to come back to the farm? If City Kid couldn't work there on a daily basis, would they have been willing to invest at-risk capital to help the farm grow? One might be surprised at how flexible the parties can be if given the space to be creative, and at how hostility can be defused with open and respectful dialogue.

Conclusion

If you ask a farmer what they want to happen to their farm after they are gone, odds are the response is something akin to "I want to keep the farm in the family, and I want to keep the family farming." At the same time, insisting that all children—regardless of their involvement with the farm—receive exactly the same share of farm assets in undivided interests is the surest way to frustrate that goal. On the other hand, actively engaging with all the family stakeholders and examining how to *equitably* transfer assets opens up a broad range of possibilities that can keep the farm in the family and keep the family members who want to farm farming, and keeping the family together. When the authors have asked hundreds of farm transition workshop participants the most important thing to them in their transition, the almost unanimous result is "preserve family relationships." Open, honest, and transparent dialogue, coupled with creative problem solving, can get you a long way toward that goal.

Epilogue: A Note to City Kid

If you see yourself as a City Kid reading this chapter and you feel a bit picked on, one of your authors—Shannon—is going to speak personally for a moment. I grew up on a small cow-calf and wheat operation in Western Oklahoma during the darkest depths of the Farm Crisis in the 1980s. Both of my parents worked multiple off-farm jobs and through their intelligence, wisdom, back-breaking labor, and determination, our farm survived. Nevertheless, it doubtlessly took a psychological toll on them. One day in the midst of all this, my father sat me down and said "Son, never come back to this farm, because this is no way to make a living. Get an education and get a job with a steady paycheck." That conversation stuck with me, and I took his advice, but I never quite shook the red dirt off my agricultural roots. That's why I've devoted much of my professional life to helping farms make a successful generational transition.

But to do that I have a job at a university 3 hours away from our family farm that affords me little time to be on the farm. So, you see, I'm now City Kid too, even though I live in the country near a town of 212 people. Our family has gone through the challenges of the Farm Kid/City Kid dilemma. We too had a Farm Kid in the family: my youngest brother. In the few short years he worked in partnership with Ma and Pa, he enabled them to quintuple (that's 5 times) the acreage they operated and turned our farm into a diversified operation spanning two states.

The future for the farm was bright, and my other brother and I contemplated ways we could invest in the farm even if we couldn't be there on a day-today basis. The entire farm dynamic was radically altered, though, when Farm Kid was killed in a farm accident. When he died, I sat myself down and contemplated what he had contributed to our family farm. *If* Farm Kid had survived and Ma and Pa passed away before him, and *if* they declared in their estate tools they were dividing that farm equally among their three children, it would have been patently unfair because neither me nor my other brother made anything remotely close to the contributions our Farm Kid brother did. Now, our Ma and Pa are left with two City Kids and no Farm Kid, and we are all working to make sure the farm remains a viable source of income for Ma and Pa, while we two City Kids consider how to manage the land legacy we will inherit one day.

I tell you this simply to let you know I probably have a good idea of what you feel. You love your parents, you love your siblings, and you love your farm, and you—just like them—are trying to make a living in this world. You also recognize that farm life comes with challenges and risks unlike any other profession. You wrestle with whether the farm assets are an entitlement (or perhaps a gift) or if they are an opportunity that must be earned—and if so, have we earned that opportunity?

Thus, finding a place for you—and for me—with respect to the farm may require a lot of flexibility, creativity, and perhaps even sacrifice. For those of us who cannot be on the farm on a daily basis, we have to examine other ways we can productively contribute to the farm. That may be providing an investment of at-risk capital to help the farm grow or diversify or providing our professional expertise in marketing, accounting, law, or other areas. Regardless of the exact contributions we can make, if we are willing to have open, honest, and respectful conversations with everyone involved, there are ways we can still be a meaningful part of our farm, and more importantly, we can still be a meaningful part of a farm family.

Reflection:

Questions for owner generation

Has this chapter changed your thoughts about how you might divide your assets?

How might you divide the assets to provide the successful opportunity to continue the farm?

Questions for successor generation

What are your thoughts on the concepts in this chapter?

How might you start the conversation with others in your family about inheritance?

The worksheet titled **Is Equal Fair?** (p. 34) in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

References:

[1] You can find the music video at https://www.youtube.com/watch?v=2Yb3dRyLMB8.

[2] If you need the lyrics, a quick web search will pull them up. The author strongly suggests you read along with them to the song.

[3] S. Boesveld, "Corb Lund's New Record Brings Grit, Life, and Loss Back to Country Music." NATIONAL POST, November 5, 2015, available at https://nationalpost.com/entertainment/music/corb-lunds-new-record-brings-grit-life-and-loss-back-to-country-music.

[4] For a full discussion of the research, see G. Reed, S. Ferrell, E. DeVuyst, and R. Jones, A Model of Farm Transition Planning for the U.S. Plains, 4:1,6 JOURNAL OF APPLIED FARM ECONOMICS (2021), available at https://docs.lib.purdue.edu/jafe/vol4/iss1/6/.

[5] Baker, J. 2013. "What's It Worth if You Stay on the Farm?" Paper presented at National Farm Business Management Conference, Overland Park, Kansas, 11 June 2013.

[6] See, e.g., Wisconsin Stat. § 852.01(b).

[7] Whether Ma and Pa structured the farm as a corporation or LLC or if they gave Farm Kid and City Kid direct ownership of the farm assets does not matter all that much for the purposes of our discussion. The functional point for the purposes of the discussion is both Farm Kid and City Kid own an interest in the business and either directly or indirectly in the business's underlying assets.

[8] As a benchmark for an investment with some level of risk (and by some measures, a level of risk quite comparable to farm income risk), the historical annualized rate of return on the S&P 500 Index since its inception in 1928 through the end of 2023 is 9.90 percent, and when measured from its adoption of 500 stocks in 1957 through the end of 2023 is 10.26 percent. J.B. Maverick, "S&P 500 Average Return and Historical Performance" Investopedia, January 3, 2024, available at https://www.investopedia.com/ask/answers/042415/what-average-annual-return-sp-500.asp. Note that a "normal" investor (and the authors are using the term "normal" with very exaggerated air quotes as they write this) would consider not only dividends but also the growth in the equity value of the stock, but if City Kid really doesn't want to sell their interest, that value growth becomes irrelevant.

[9] Consider how this might be different if Farm Kid received a set salary and benefits package on an annual basis, and received a non-discretionary bonus if certain financial performance benchmarks were met by the farm.

[10] MERRIAM-WEBSTER DICTIONARY, online edition (2024).

[11] If, for some reason, Farm Kid's labor and management contributions and their value make this a bit fuzzy ("Working on the farm is a privilege;" "Well, what's farm labor objectively worth anyway?" "It's hard to put a dollar value on the management contributions Farm Kid made"), let's simplify it as much as possible. Forget the farm; Ma and Pa are making contributions to an investment account—say a stock index fund—and 20 years ago Farm Kid started making contributions to Ma and Pa's account too, with those contributions increasing in amount each year until by the end, the annual amounts of Farm Kid's contributions were greater than those of Ma and Pa. City Kid has made no contributions to the account. Now how do you feel if, in their estate's administration, Ma and Pa divide the account equally among Farm Kid and City Kid?

[12] Alternatively, they may avoid such distributions altogether and simply reinvest in the farm directly from operating profits.

[13] Having said this, increasing rates of off-farm employment by both primary operators and their spouses may create more opportunities for the creation of nonfarm financial assets that could be used to balance estate gifts to Farm Kids and City Kids in the future. See A. Giri et al, "Off Farm Income a Major Component of Total Income for Most Farm Households in 2019," AMBER WAVES, USDA Economic Research Service, September 7, 2021, available at https://www.ers.usda.gov/amber-waves/2021/september/off-farm-income-a-major-component-of-total-income-for-most-farm-households-in-2019/.

[14] USDA, 2017 Census of Agriculture, available at https://www.nass.usda.gov/Publications/AgCensus/2017/

[15] If you doubt this challenge, get one toy and tell two 2-year-old children to share it, then record the results. It is the authors' experience that the same results translate up to and through age 95.

[16] See, e.g., K. Knobloch and J. Gastil, "How Deliberative Experiences Shape Subjective Outcomes: A Study of Fifteen Minipublics from 2010–2018," JOURNAL OF DELIBERATIVE DEMOCRACY, 18(1) (2022), available at https://doi.org/10.16997/jdd.942.

Get Busy Preparing the Next Generation to Manage

By David L. Marrison, Professor & Field Specialist, Farm Management, The Ohio State University

"I guess it comes down to a simple choice, really. Get busy living or get busy dying." This famous line was quoted by Andy Dufresne, played by Tim Robbins, in the iconic movie The Shawshank Redemption, released in 1994.

As we each traverse our lives, we all are presented with moments that make us pause and reflect on how precious the time is we have been given here on Earth. Every time I watch The Shawshank Redemption, I pause and think of the deeper message in this line. This being that you can spend your life going through the motions and waiting around for something to happen or you can make something happen.

As we look at developing a plan for transitioning the farm to the next generation, are we waiting around for something to happen? Or are we working to make something happen? As farmers, we have to contend with and solve the day-to-day problems that arise on the farm. And there is never a shortage of problems that arise.

Because of this, deeper planning functions, such as farm transition planning, are often pushed down the to-do list. So, what will be the trigger to make something happen with regards to your succession plan?

What will be your trigger?

One of the hypothetical questions we pose in farm succession workshops is: "What knowledge would you need to pass on if you knew you had only 2 months to live?" This exact scenario happened to our family in 2010 when my father was diagnosed with pancreatic cancer just as we entered into spring planting season on our dairy farm in Northeast Ohio.

My father valiantly battled this disease but passed away 7 weeks later. Our family learned a lot and had to scramble to manage the farm in the midst of his illness. I am grateful for the short time we had with my dad to make preparations. But it was not long enough to learn everything we needed to know to run the farm without him.

I challenge you to think how your farm and family would react to the loss of the principal operator. What knowledge and skills need to be transferred to the next generation so they can be successful? What can you do today to make something happen?

Who will manage the farm in the future?

As you develop your succession or transition plan, there are myriad decisions to be made. These decisions include identifying the next manager of the farm, how to be fair to off-farm heirs without jeopardizing the future of the on-farm heirs, how to distribute assets through the estate plan, how and when the owner generation will retire, and how the business will deal with unexpected issues such as divorce, disability, or paying for nursing home expenses. I would contend that the most crucial planning functions are to identify the next manager of the farm and then strategically plan how to develop them to lead the farm in the future.

The first step is to identify who the next manager or managers of the farm will be. The successor generation could be an immediate family member (son, daughter, grandchild) or extended family member (brother, sister, niece, nephew). With that said, the next manager does not have to be from your family as some farms have transitioned successfully to a friend or neighbor. The key is to choose a successor who will be the best caretaker of the farm and land they will be entrusted with.

As you review potential managers and heirs to your farm, it is important to talk with them about their vision for the future and how it aligns with the current farming operation. What are their goals and aspirations for the farm? What concerns do they have about the future of the farm?

It is recommended to complete a skills assessment with each potential manager to examine their current strengths and the areas in which they will need to receive training in order for them to be a better manager for the farm in the future. Talk with them to learn more about what they would be most concerned or scared about if they had to take over the farm today. Are there additional responsibilities they would like to assume and what is their expectation for an appropriate time for management control to be transferred?

It is suggested the new manager have time to experience how other farms operate. Having the future manager work on another farm prior to returning to the home farm is a valuable experience. Mentor relationships should also be developed for the new manager to have a trusted team to help them grow.

Putting the Transition in Motion

The transition can be accomplished gradually by turning over more responsibility and authority to the successor. In fact, this process may (and should) take 5 to 10 years. It is important to develop a timeline for transferring ownership, management responsibilities, and knowledge from one generation to the next.

As the owner generation transitions their role and responsibilities to the next generation, thought should be given to the overall labor hours which will be available. In some cases, the responsibilities of two members of the owner generation will be transitioned to a single successor. Think of a husband/wife combination transitioning responsibilities to one of their children. This could cause a labor shortage. Could some tasks be outsourced to independent contractors (e.g., accountants)? Or could some production practices be accomplished through custom-hire arrangements (e.g., silage harvest or cattle breeding)?

The biggest task in the transition plan is making sure the next generation has a firm foundation of knowledge to manage the operation in the future. This will look different for each farm and for the type of manager that is needed.

If the next manager is going to be an owner-operator, then training will need to include how to manage all aspects of the farm. These include production skills to raise livestock and/or crop enterprises and marketing skills to effectively market each commodity produced. The owner-operator will also need financial skills to manage the operation's finances and taxes, and human resource skills to manage employees. Additionally, they will need to know how to maintain facilities, tools, and equipment as well as manage risk through crop, livestock, and farm insurance.

If the next manager will be more of an owner-landlord, they will need to be trained less on the day-to-day production activities and more on how to manage the farm assets. Some skills that are necessary for landlords would include tenant and farm rental management, farm finance and tax management, farm insurance decision-making, and facilities and other farm assets maintenance.

Some of the strategies which are recommended for farm businesses in the transition process are:

- Every person who is part of the business (family member and employees) should have a written job description that includes job duties, responsibilities, and expectations.
- Create an organization chart of all employees and how they relate to one another.
- Develop a timeline for the successor to work through each job description on the farm. It is good to start the new family member as an employee and not the top manager.
- Provide meaningful opportunities for decision-making as well as accepting responsibility for the future manager.
- Develop a plan on how the future manager can increase their equity in the farm business (through gifting, purchasing, or inheritance).
- Develop a timeline for retirement and managerial transfer from owner generation to the successor generation.
- Use family business meetings to discuss the transfer and changing roles within the business.

Some experts advise that the current manager take a number of planned absences before retiring to provide an opportunity for the successor to see what it is like to manage the business alone. This will also allow the current manager to see that the farm does not fall apart without them. So how do you know if the next generation is ready? There are two other approaches that you can use to help prepare the next generation to lead without you.

Opossum Approach – Just as an opossum plays dead, so too should the principal operator. Take an unannounced week away from the farm during one of the busiest times of the year for your farm and allow the successor generation to take over with no communication from the owner generation. I know this sounds crazy, but how else will you know what knowledge and skills need to be transferred? It is a lot easier to come back after a short vacation and be able to answer the questions your son or daughter has. You won't have this opportunity when you pass away.

365 Day Challenge – Outside of using the opossum approach, it should be the goal of the owner generation to transfer at least one knowledge point or skill to the next generation each day. So, by the end of the year, your heirs will have 365 new tools in their management toolbox. If you do this over the next 5 to 10 years, you can teach your heirs an incredible amount.

Final Thoughts

So, are you ready "to make something happen" regarding the transition of your farm to the next generation? Farm managers are encouraged to think about how the next generation can be prepared to lead the farm in the future. And, as Andy Dufresne stated in The Shawshank Redemption, "Remember, hope is a good thing, maybe the best of things, and no good thing ever dies." Good luck as you plan for the future of your farm!

Reflection:

Questions for owner generation

What knowledge would you need to pass on if you knew you had only 2 months to live?

What are the management functions that the successor generation needs more training in to be successful in the future?

What is your timeline for turning over management control to the next generation?

Questions for successor generation

What are your goals and aspirations for the farm?

If you had to take over the farm today, what would you be most concerned or scared about?

Are there management responsibilities that you specifically need to learn more about to be ready to manage the farm in the future?

What are your thoughts on the appropriate time for management control to be transferred from the owner generation?

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The following worksheets in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

- **Control of Farm Management Decisions, pp. 35–36**
- **Transfer of Management, p. 17**

Setting Business Strategy Using a SWOT Analysis

By Stephanie Plaster, Farm Management Outreach Specialist, UW–Madison Division of Extension

Strategic thinking is the intuitive, visual, and creative process you use to make decisions about your farm business. Strategic thinking is all about thinking ahead, predicting what your competition is going to do, and then taking risks to succeed. You're thinking big, you're thinking deep, and you're thinking across time. You want to envision all potential problems, solutions, and outcomes to a given problem, challenge, or opportunity.

You might not initially think of it this way, but strategic thinking is a visual and a creative process. This process is about exploring your intuitions, gut feelings, and experiences. It's thinking outside the box, using your critical thinking to solve complex problems, diving into emerging issues, themes, and patterns you're noticing while also exploring opportunities.

It's considering all possible scenarios, not excluding any at first, and then anticipating possible outcomes for any action or inaction you might take. It will help you figure out the best path forward to give you a competitive advantage and add value to your farm.

How do you incorporate this idea of thinking strategically into your business plan and operations? You make it actionable by envisioning the future and setting goals with steps to achieve them.

A common tool you may have heard used during this process is a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis, which helps you find strategies for your business.

Why do we care about strategies?

It's because they allow for proactive management, they help us maintain more control over what happens to a farm, and they determine early on if a business idea, enterprise, or opportunity is feasible and the right fit.

Strategic planning can be looked at as a continual, cyclical process we set intentionally then use in our business daily.

We'll start at the top in the strategic or long-term phase. In this phase, we begin to set our strategy by asking (and answering): "Where are we now and

Adapted from John Hewlett, Western Integrated Ranch Education program, University of Wyoming Department of Ag and Applied Economics

where do we want to go?" In the tactical or medium-term phase, we ask: "How are we going to get there and what are we going to do?"

Finally, in the operational or short-term phase, we do what we've planned for and evaluate how the plan is working.

The SWOT Analysis

Robert Filek is quoted as saying, "Strategy without process is little more than a wish list." I want us to keep this in mind. Because there are two pieces to the SWOT analysis, or to even thinking about strategies in general. There's the process piece, or how we come to our actions, and then there's the writing down and creating the actionable list piece. We want to make sure we have a good balance between the result and the process.

We want to make sure we're not stifling the process by rushing to create a list, and we want to make sure we're not forgetting about what we're learning and gaining through the process by not being able to create the actionable list we're moving forward with. Don't let one stifle the other.

A SWOT analysis is the identification of strengths, weaknesses, opportunities, and threats to your business. It's the development of strategies and goals from this analysis. And then, the most important part, it's the creation of realistic actions to reach those goals.

This is a great exercise to complete at least once per year to help keep you focused on achieving your mission and vision. Some farms feel it best to revisit or complete the exercise each quarter if there are challenges or growth opportunities looming. It is up to each farm to find the process that works best to keep them focused on the bigger picture and end goal. You can also choose to complete this exercise for the farm as a whole or for an individual issue or enterprise, depending on your needs. A SWOT analysis is a useful tool when thinking through your succession plan and figuring out the course for the farm and family's future.

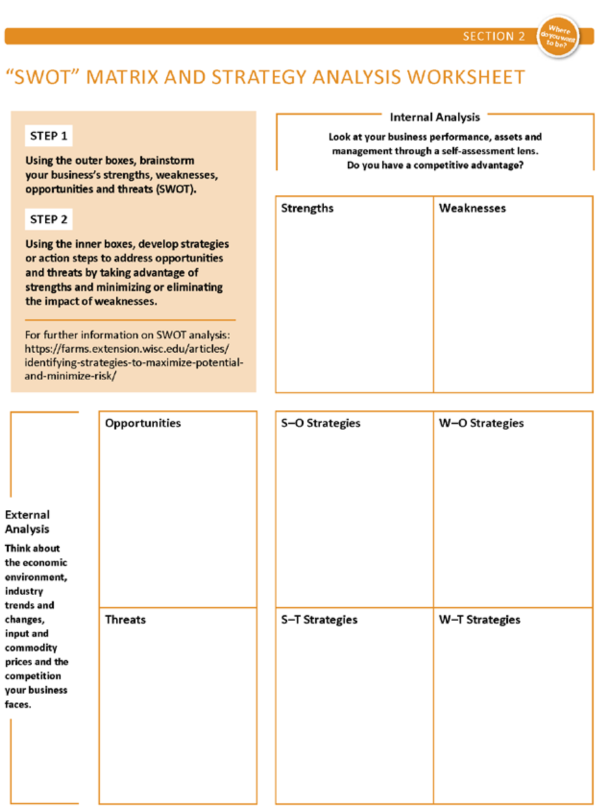
Who should be involved in creating a SWOT analysis?

Before you sit down to create the SWOT analysis, it is worth thinking through who should be involved. The easy answer is it depends on the issue you're addressing. The more complicated answer involves two parts: the leadership team creating the analysis and the stakeholders providing the feedback.

The leadership team that creates the analysis may consist of owners, partners, C-suite executives, managers, and other decision-makers on the farm. This can include the owner generation, the successor generation, and those that make strategic decisions about the farm's finances, labor/employees, crop and livestock production, product development, estate plans, risk management, and environmental or sustainability efforts.

Key stakeholders you consult throughout the information-gathering stages include key people and organizations you do business with such as consultants, lenders, financial advisors, risk management agencies, cooperatives, service providers, markets, neighbors, community organizations, and employees.

Below is an example of a SWOT matrix and strategy analysis worksheet. At the top, you will see an area to list strengths and weaknesses in an internal analysis. On the left, there is an area for an external analysis of opportunities and threats. The middle is where you use the analysis to create strategies based on your findings. Let's walk through it step by step.


SECTION 2 Where do you want to be?

"SWOT" MATRIX AND STRATEGY ANALYSIS WORKSHEET

STEP 1

Using the outer boxes, brainstorm your business's strengths, weaknesses, opportunities and threats (SWOT).

STEP 2

Using the inner boxes, develop strategies or action steps to address opportunities and threats by taking advantage of strengths and minimizing or eliminating the impact of weaknesses.

For further information on SWOT analysis: https://farms.extension.wisc.edu/articles/identifying-strategies-to-maximize-potential-and-minimize-risk/

Internal Analysis

Look at your business performance, assets and management through a self-assessment lens. Do you have a competitive advantage?

	Strengths	Weaknesses
Opportunities	S–O Strategies	W–O Strategies
Threats	S–T Strategies	W–T Strategies

External Analysis

Think about the economic environment, industry trends and changes, input and commodity prices and the competition your business faces.

Step 1

This is an internal analysis where you and the farm's leadership team identify the business's strengths and weaknesses. This is a self-assessment where you are looking at the business's performance, your assets, and management decisions. Ask yourself:

- What is your competitive advantage?
- What limits what you can do?
- How has the business performed in the past (during good times and bad)?
- What trips you up or keeps you up at night?

Be brutally **honest** with yourself! The analysis only works if you're providing accurate information.

To dive a little deeper here, reach out to people within and outside the farm. Gather feedback on others' perceptions. This feedback can be tough to hear, but it's important to know how people see your business even if that isn't the reality that you experience. You will also want to compile industry benchmarks and rank these in terms of their level of importance to your operation's competitive advantage. You will also want to look at the financial analysis measures from the last 5 years, figure out how business decisions are made, and how the farm has been managed. Examine what went well or poorly and why.

Step 2

The next step of the SWOT analysis is to dive into the external factors affecting the farm business. Here you identify external opportunities and threats. Take the time here to gather information on the external environment. You can do this by taking a look at the general condition of the economy and asking:

- How is it affecting or will be affecting the business?
- What are the trends with input and commodity prices?

- Where is technology headed and how could it help or cause challenges?
- What are consumers or society looking for?

Other things to consider include current or future government rules and regulations and trends or changes in the ag industry. Try to define who you are competing against and then take a look at what they are doing. Make sure to take a global, national, statewide, and local lens.

Again, take some time to dive into these topics. You can do this by looking at what various media sources are interested in, using the internet or the library to investigate market trends, or talking to various professionals, peers, or neighbors. Ask business partners, employees, customers, consultants, those you do business with, family, and friends for their thoughts and feelings. Remember, right now you are gathering information. You don't want to exclude options at this point. Including a broad array of perspectives can be helpful when trying to identify the best way forward.

Step 3

After all the information has been pulled together and recorded, the next step is to recognize and create available strategies to move you toward your end goal.

Creating strategies is your opportunity to find ways you can take advantage of your strengths and minimize or eliminate the impact of the farm's weaknesses. You are looking to maximize the business's potential and mitigate risks. You do this by developing cross strategies that pair your strengths and weaknesses with external opportunities and threats.

Strategies that show up more than once might be areas to focus on and prioritize higher. Think back to when we talked about strategic thinking. You want to be considering all possible scenarios, not excluding any at first, and then anticipating possible outcomes from any action or inaction you might take. This will help you figure out the best path forward to give you a competitive advantage and add value to your farm. Not narrowing down options too soon can also help give you a starting point if your first strategy isn't working out and needs to be adjusted, or if you're looking for an alternative later.

Strategy Analysis Examples

Is this process of developing strategies hard for you to visualize? The following are examples from each box in the matrix to help guide you.

Strength–Opportunity Strategy: One of your strengths is connecting with people and keeping good relationships, while one of the opportunities is to provide a specialized or popular product like locally raised beef direct to consumers interested in knowing their farmers. You could expand into direct marketing a product, such as through a website, farmers market, or storefront. Or you could join a coop or group of other farmers looking to do the same.

Weakness–Opportunity Strategy: Your farm has communication challenges, and no one seems to be on the same page, yet there is an opportunity to expand the farm. One strategy might be to implement mandatory team meetings with set agendas and action steps to increase efficiencies, address problems sooner, and reduce communication barriers. It might also help to create an organizational chart to show who handles what and what the "chain of command" is. This would allow you to commit to expansion while making you more confident in being able to achieve growth.

Strength–Threat Strategy: Your farm has low turnover and employees generally enjoy working for you. However, this is an incredibly tight labor environment and people have many available opportunities. A strategy might be to review current HR practices, check in with employees to see how things are going and troubleshoot issues, and implement any changes or improvements such as bonuses, flexible scheduling, better training, vacation, or a reward system.

And finally, a *Weakness–Threat Strategy:* If your weakness is that you produce and sell one commodity, a threat is fluctuating or low commodity prices. One strategy might be to diversify income streams. Maybe there's an opportunity for a value-added product, an agritourism opportunity, a new enterprise, or an investment opportunity.

Turning Strategies into Goals

To turn the strategies from the SWOT analysis into goals and action steps, you will want to:

1. Identify your top three strategies.
2. Decide on which to move forward with.
3. Convert these strategies into goals.
4. List action steps needed to achieve the goals.
5. Identify a person responsible for each step.
6. Determine a realistic timeframe for the goal to be completed.
7. Schedule a progress check-in.
8. Adjust goals and steps as needed.

You may also want to include how much each step or goal will cost (in terms of time, resources, and money) and what your measurement of success will be.

Why do you need to set goals?

Goals supply the strategic framework for results and keep the focus on what matters most. They prioritize which decisions and actions are critical for quickly moving forward in the right direction, and they define what success looks like.

Goals are most powerful when they are owned by the people responsible for achieving them. Involving the team or employee in the goal development process and working together to name the specific measures needed to confirm progress improves commitment to and achievement of the goal.

How do you set achievable goals?

Begin by developing an aspirational statement that is meant to achieve action toward the farm's vision and strategy. You are answering the question, "What do I hope to achieve that contributes to the farm's growth and success?"

Next, use the SMART goal framework to help increase the likelihood of success. SMART goals are specific, measurable, achievable, relevant, and time-bound.

Check your goal to see if you can make it more specific, if you can measure progress toward it, if it is realistic and achievable, if it is relevant to your vision and strategy, and if there is a timeframe for it. This helps you develop goals that are focused and more likely to be completed. Estimating the cost of each goal (money, time, effort) also increases the likelihood of success.

Pulling It All Together

A comprehensive SWOT analysis helps a farm acknowledge and be responsive to opportunities and threats in the current business environment. The business strategies derived from the SWOT analysis should be realistic actions that help the farm reach its goals. Spending time developing goals and strategies helps a farm adapt nimbly in a changing environment and make proactive business decisions.

Incorporate strategic thinking on the farm by taking time to remind yourself of your big-picture or long-term vision for yourself and your farm business, analyze your current situation, identify areas of opportunity, set strategic goals to align with your vision, develop an attainable plan of action, and identify who is responsible for each part of the plan.

Reflection:

How can you build a SWOT analysis into your succession planning process?

Who should be involved in your farm's SWOT analysis around the succession plan? Owners? Successors? Are there outside stakeholders you can ask to provide feedback from their perspectives?

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The worksheet titled **"SWOT" Matrix and Strategy Analysis Worksheet** (p. 37) in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Failed to Plan? The Law Has Plans for You

By Kelly T. Wilfert, J.D., Farm Law Outreach Specialist, UW-Madison Division of Extension

Your farm is more than just a business—it's a legacy. What happens when the unexpected occurs? When life takes an unexpected turn and you're no longer there to guide the plow, who will inherit your hard-earned acres? Failing to plan can cast a shadow over your farm's future.

Without a clear plan in place, state laws will determine (1) who gets what, (2) the process for distribution, and (3) the financial consequences of those transfers. Unfortunately, those laws may not align with your vision for your farm.

In this chapter, we'll delve into some of the risks of failing to plan—specifically, intestacy, probate, estate tax, and long-term care concerns. Collectively, you may refer to these risks as the legal risks of estate planning, or, rather, failing to develop an estate plan. "Estate planning" means the overall process of making decisions as to how to pass one's property to others, both during lifetime and at death.[1] This often includes or is related to farm succession planning (the transfer of the business) because of the interrelationships between the business and the individual's assets. Remember, if you don't develop an estate plan, state law will provide one for you.

Intestacy

Intestacy occurs when an individual dies without an estate plan, or when their estate plan does not provide for the distribution of all of their assets. Instead, state law provides rules for intestate succession (i.e., who will receive your assets upon your demise). Even though these rules may not achieve individual goals, many people still fail to complete their estate plans. Studies show that, among many reasons, the two main ones for this challenge are: (1) the inability to make the hard decisions that an estate plan requires on issues such as the distribution of assets and (2) struggles with acknowledging your true feelings about possible family beneficiaries. Despite the challenges, you should craft an estate plan if you don't want state law to distribute your assets for you.

In short, each state has unique laws that determine who receives your assets upon your death if you haven't legally executed an estate plan. Let's see what this might look like in Wisconsin[2] with the Brown farm family.

[1] McEowen, Roger A. 2024. *Principles of Agricultural Law.* Ankeny, IA: McEowen P.L.C.

Robert and Linda Brown

Robert and Linda Brown are a married couple in Wisconsin. They are 78 and 75 years old and have been farming for most of their lives. Neither Robert nor Linda has done any estate planning. They have no wills, trusts, or other transfer mechanisms in place. One day, Robert has a heart attack in the field and passes away. Under Wisconsin law for intestate distribution as of the date of this publication, what happens to Robert's assets? Let's look at some examples and discussion questions about how the assets might be distributed in different situations.

Example 1 – Say the Browns have two adult children, Christopher and Amanda. In these circumstances, the law provides that the surviving spouse (Linda) receives all of Robert's assets. Linda also retains her half of the marital property. Christopher and Amanda do not receive anything at this time.

Example 2 – In this example, the Brown family's situation is the same, *except* Christopher and Amanda are Robert's children from his first marriage. Linda is Robert's second wife.

In these circumstances, the law provides that Robert's assets are split—half to Christopher and half to Amanda. Linda retains her half of the marital property but does not receive any of Robert's half of the marital property.

Example 3 – In this example, Christopher and Amanda are still Robert's children from his first marriage. Robert is estranged from his first wife, Mary, but Robert and Mary are not legally divorced. Robert lives with Linda, but they have never married.

In these circumstances, the law provides that Mary retains her half of the marital property and receives all of Robert's half. Linda, Christopher, and Amanda receive nothing.

Example 4 – In this example, Christopher and Amanda are still Robert's children from his first marriage. Robert and his first wife, Mary, are divorced, but Robert never legally married Linda.

In these circumstances, the law provides that Christopher and Amanda each receive half of Robert's assets. Linda and Mary receive nothing.

Discussion – Amanda plans to continue farming. Christopher works off of the farm. Linda and Mary are both retired.

1. How might intestate distribution complicate Amanda's plans to continue farming?
2. As a potential off-farm heir, what might Christopher think of the distribution provided by law?
3. What challenges might Linda face?
4. What might Mary do in Example 3? Do you think Robert would be happy with Mary receiving all of his assets?

Let's look at another example—the Miller Brothers Farm.

Matthew and David Miller

Matthew and David Miller are brothers who farm together in a partnership in Wisconsin. Matthew and David are 51 and 53 years old. Matthew is married to Lisa, and they have three children (Andy, Josie, and Joey). Joey is interested in returning to the farm. David never married or had children.

Neither Matthew nor David has done any estate planning. They have no wills, trusts, or other transfer mechanisms in place. Under Wisconsin law for intestate distribution as of the date of this publication, what happens to the assets if one of them passes away? Let's look at some more examples and discussion questions.

[2] Wisconsin is a community property state. For purposes of the examples contained in this section on intestacy, we will assume that all property owned by a spouse is marital property. Existence of individual property will change the distribution beyond the examples shown here.

Example 1 – Matthew is in a farming accident and passes away. In these circumstances, the law provides that Lisa receives Matthew's assets, including his portion of the farm assets.

Example 2 – Matthew passes away in a farming accident. However, Lisa is his second wife. Joey is their child. Andy and Josie are Matthew's children with his first wife.

In these circumstances, the law provides that Lisa retains her half of the marital property. Andy and Josie each receive one half of Matthew's half of the marital property. Joey receives nothing.

Example 3 – Instead of Matthew, David is in a farming accident and passes away. Matthew and David's parents are still alive.

In these circumstances, the law provides that David's parents receive David's assets.

Example 4 – David is in a farming accident and passes away. Matthew and David's parents are also deceased.

In these circumstances, the law provides that Matthew receives David's assets.

Discussion

1. What challenges might David have in examples 1 or 2?
2. Do you feel that the distribution under example 2 is "fair" or "correct"?
3. What issues might occur in examples 3 or 4?

In the examples above, we don't know who Robert, Matthew, or David hoped their assets would pass to upon their deaths, *only* what occurred under Wisconsin state law. Remember that intestacy laws vary by state, which means that your state law *may* cause yet a *different* outcome. Wherever you are located, distribution of assets under intestate succession may or may not match your individual goals or your goals for the farm. They may cause challenges by (1) distributing property in a way the deceased did not intend, (2) forcing people to work together who might not otherwise choose to, (3) requiring one person to try to buy out another, or any number of other difficulties. Additionally, the distribution rules created by these laws are outside of your control and may change from time to time if the legislature passes an amendment. It can be risky to rely on state laws for intestate distribution to achieve your estate planning goals.

Instead, executing an estate plan reduces the risks of intestate distribution and increases the chances that your goals for distribution will be accomplished. You still need to make the hard decision of "who gets what," but you can rest more easily knowing that those wishes will be carried out with a legally binding estate plan.

Probate

Probate is the name of the court process for administering the decedent's estate. This process occurs after death and includes inventorying assets, paying debts, and distributing the remaining property to heirs or beneficiaries. Probate has several characteristics which may be considered risks, including its public nature, timeline, and related fees.

Because probate is a court process, it is part of public record. Probate filings may be viewed by anyone at the local courthouse, or wherever public access to court documents is available. That record includes an inventory and distribution list (which shares the assets owned upon an individual's death that are subject to probate), the approximate fair market value of those assets, and who received those assets upon their distribution. Some individuals may not feel comfortable having this information publicly available, whether due to nosy neighbors or disinherited persons, and may therefore wish to avoid probate.

In addition, probate can be a lengthy process, lasting anywhere from 6 months to a few years. During that time, a personal representative (or executor) will be authorized to manage the probate process and administer the decedent's estate. If no estate planning has occurred, the court or probate registrar will need to authorize a personal representative. During the ongoing process, that personal representative will then be responsible for managing the assets, paying any debts, claims, taxes, or administrative expenses, and distributing the assets to the heirs or named beneficiaries. Managing the assets may look different depending on the personal representative. Some may wish to take an active role in making farm decisions, while others may feel that managing those assets involves limiting their use until the process concludes. The timeline may also impact the farm's ability to get financing if certain assets are no longer available as collateral due to the ongoing probate process. Because this process can take over a year, it is possible that one or more growing seasons will be impacted.

Finally, some individuals are uncomfortable with the fees related to the probate process. Most states charge an administrative fee equal to a percentage of the assets subject to probate. As an example, in Wisconsin, this fee is 0.2 percent.[3] For an estate of $100,000, this would be a $200 fee. In addition, the personal representative is often entitled to a fee for their services. In Wisconsin, this is equal to 2 percent, plus reimbursement of expenses.[4] For our example estate of $100,000, this would be $2,000. There may be additional filing fees and attorney's fees if an attorney assists with the process. As these fees add up, some individuals may find probate to be more expensive than they would like. These costs should be weighed against the costs for estate planning to avoid probate.

Alternatively, another attribute of probate is the statute of limitations it imposes on creditors. In Wisconsin, creditors must bring any claims against the estate within 3 to 4 months after the application for probate administration is filed. Failing to bring such a claim within the time limit will bar some claims, meaning that heirs can be assured they receive the assets without any outstanding liens.[5]

Individuals must assess their comfort with the public nature, process length, fees, and limitation on claims of probate to decide whether they wish to use the process or avoid it. While the exact details of fees and time periods vary by state, the general concepts are the same. Failing to plan means that probate will typically be required.

Estate Tax

Like income taxes, estate taxes may be imposed on both the state and federal levels. At the time of this writing, Wisconsin does not impose a state-level estate tax. However, Wisconsin citizens and residents are subject to the federal estate tax, just like everyone else.[6] Much like the graduated income tax brackets, the federal estate tax ranges from 18 to 40 percent on the decedent's taxable estate.

How do you know if your estate will be subject to the estate tax? Each individual is allowed a "Unified Estate and Gift Tax Credit," which reduces your total estate subject to tax. Pursuant to the Tax Cuts and Jobs Act of 2017, the Unified Estate and Gift Tax Credit is $13.61 million in 2024. This number is adjusted annually for inflation. However, this provision of the Tax Cuts and Jobs Act of 2017 is set to expire at the end of 2025, at which time the Unified Estate and Gift Tax Credit is expected to return to $5 million adjusted for inflation (estimated to be between $6 and $8 million in 2026).[7]

The Unified Estate and Gift Tax Credit provides an exemption for property to be passed to heirs or beneficiaries without estate or gift tax. Let's see how it works.

[3] Wis. Stat. §814.66 (2021–2022).
[4] Wis. Stat. §857.05 (2021–2022).
[5] Wis. Stat. § 859.02 (2021–2022).
[6] 26 U.S. Code § 2001
[7] 26 U.S. Code § 2010(c)(3)(C)

Example 1 – Laura Long is an unmarried individual who passes away in 2024 with assets with a net worth of $268,000. Those assets will pass to her heirs or beneficiaries without any estate tax.

Net worth of estate		$268,000
Exemption	–	($13,610,000)
		$0 subject to estate tax

Example 2 – Thomas Kue is an unmarried individual who passes away in 2024 with assets with a net worth of $14.2 million.

Net worth of estate		$14,200,000
Exemption	–	($13,610,000)
		$590,000 potentially subject to estate tax

Example 3 – Joshua Walters is an unmarried individual. In 2024, his assets are worth $7.7 million. He passes away in 2027. His assets have appreciated to $8.3 million.

Net worth of estate		$8,300,000
Exemption	–	($6–8 million)
		Unknown amount potentially subject to estate tax

When planning for estate tax, it is important to keep in mind that the Unified Estate and Gift Tax Credit is adjusted annually for inflation and may be further changed from time to time by Congress. If Joshua Walters in Example 3 had passed away in 2024, he would have had no estate tax due because the credit was higher than his net worth. However, when the credit value decreased in 2025 and his assets appreciated before his death in 2027, his estate became greater than the Unified Estate and Gift Tax Credit for 2027. Until the credit amount is set for 2027 (the year of his death), it's unclear exactly how much of his estate will be subject to estate tax. Individuals should continue to evaluate their net worth (including the potential for future income and appreciation) against the potential credit value(s) and plan accordingly.

The Unified Estate and Gift Tax Credit available at death is also impacted by gifts made during life. Each individual has an annual gift exclusion that allows them to give away a specific amount of assets each year tax-free. In 2024, the annual gift tax exclusion is $18,000, meaning that a person can give up to $18,000 to as many people as he or she wants without any tax consequences.[8] However, once that annual gift tax exclusion is exhausted for a given year and recipient, any additional gifts are counted against the Unified Estate and Gift Tax Credit, reducing the credit available at the time of the giver's death. Let's see how this might work for Joshua Walters.

Example 4 – Joshua Walters is an unmarried individual. In 2024, his assets are worth $7.7 million. He expects his assets to continue to appreciate, and he is worried about his estate exceeding the Unified Estate and Gift Tax Credit.

Joshua begins gifting to his children, nieces, and nephews (10 people in total). Each of the 10 people receive $18,000 from Joshua, reducing his assets from $7.7 million to $7.52 million ($7.7 million – 10 gifts of $18,000 each). Joshua has begun to reduce his estate but has not impacted his Unified Estate and Gift Tax Credit. He may do the same thing next year with the same consequences.

Alternatively, Joshua decides that he would like to gift the same $180,000 in 2024, but he would like to divide it evenly between his three children ($60,000 each). Each of Joshua's gifts has the same tax consequences—$18,000 passes without consequence—*but* the $42,000 above the annual gift exclusion reduces his Unified Estate and Gift Tax Credit. Joshua has reduced his assets from $7.7 million to $7.52 million ($7.7 million minus 3 gifts of $60,000 each), but he has also reduced his available Unified Estate and Gift Tax Credit by $126,000 (3 gifts that were each $42,000 in excess of the $18,000 annual gift exclusion).

Joshua must also hope that he outlives his gifts by 3 years. The Internal Revenue Code also includes a 3-year rule[9] that states that a decedent's estate includes any property transferred within 3 years of death without receiving adequate payment in return.

Up to this point, our examples have only addressed unmarried individuals. We will now advance our understanding of the estate tax to include married individuals. First, transfers to spouses (whether by gift or through the estate) are excluded from estate and gift tax.[10] They do not reduce the Unified Estate and Gift Tax Credit.

In addition, the surviving spouse of a decedent may elect 'portability' and claim the unused Unified Estate and Gift Tax Credit of their deceased spouse for future use.[11] Here's an example.

Example 5 – Emily and Joseph Rodriguez are a married couple in Wisconsin. Together, they have a net worth of $2 million. Emily passes away in 2024. We will assume that all of their property is marital property, meaning that her half of the property (and her estate) is valued at $1 million. She leaves all of her property to Joseph.

At the time of her death in 2024, the Unified Estate and Gift Tax Credit is $13.61 million. Because her $1 million estate is transferred to her spouse, Joseph, it does not reduce her Unified Estate and Gift Tax Credit. Joseph elects portability, which allows him to add Emily's unused Unified Estate and Gift Tax Credit of $13.61 million to his future Unified Estate and Gift Tax Credit.

When Joseph wins $10 million in the lottery in 2026 before passing away in 2027, he will have a net estate of $12 million (plus appreciation). Although he is subject to the reduced Unified Estate and Gift Tax Credit of 2027 (let's say $8 million), he won't owe any estate tax because he can use both his and Emily's unused Unified Estate and Gift Tax Credit.

Net worth of estate		$12,000,000
Joseph's Exemption	–	($8,000,000)
Emily's Ported Exemption	–	($13,610,000)
		$0 subject to estate tax

Another consideration of managing the Unified Estate and Gift Tax Credit is the impact on tax basis in an asset. When an individual purchases an asset, such as a piece of farmland, the individual receives a tax basis in the asset at that price. If that farmland appreciates in value and the individual later sells that farmland, the individual will owe tax on that sale for any gain. You may think of it generally as:

$$Tax = Tax\ Rate * [New\ Sale\ Price - Tax\ Basis]$$

OR

$$Tax = Tax\ Rate * Gain$$

The purchaser then has a new tax basis at the price that they paid.

Conversely, an asset that is gifted does not have any change in basis. The recipient takes the giver's tax basis as their own.[12] *However*, a transfer on death may allow for a step-up in basis to fair market value.[13] Let's see how it works.

[8] 26 U.S. Code § 2503
[9] 26 U.S.C. § 2035
[10] 26 U.S.C. § 2056
[11] 26 U.S.C. § 2010
[12] 26 U.S.C. § 1015
[13] 26 U.S.C. § 1014

	Sale at $9,000 per acre	Gift	Will
Michael's Basis	$400,000	$400,000	$400,000
Rory's Cost	$900,000	$0	$0
Michael's Taxes	Tax Rate * $500,000	$0	$0
Rory's New Basis	$900,000	$400,000	Value at Michael's death *($900,000 ± appreciation/ depreciation before Michael's death)*

Example 6 – Michael Williams purchased 100 acres of farmland in 2012 for $4,000 per acre. Today, farmland in the area is selling at $9,000 per acre. Michael's health is declining, and he is ready to transition the land to his child, Rory. He is debating between selling the land to Rory at the fair market value of $9,000 per acre, gifting the land to Rory, or leaving the land to Rory through his will. Let's compare.

If Michael sells or gifts the property, it will not be part of his estate (assuming he lives at least 3 more years). However, if he leaves it to Rory in his will, it will be part of the estate. Whether there will be an impact to estate tax depends on Michael's overall estate and his Unified Estate and Gift Tax Credit.

Estate tax is a complex topic with further rules to consider. Remember that this publication is provided for educational purposes only. Consider consulting a qualified accountant and attorney for tax and legal advice on your specific situation.

Long-Term Care and Retirement Expenses

As individuals plan for farm succession, it may be tempting to focus on trying to avoid intestacy, probate, and estate tax. However, it's important to also consider the long-term needs of the older generation. Are there sufficient funds to provide for lifestyle and care needs once the farm transitions?

Creating an estimated monthly budget of expected income and expenses (without the farm) can be a good place to start. Is there enough income or savings to support your needs? Will sale proceeds or rental income be important to sustain your future budget?

After planning for the "regular" days, ask yourself: Are there funds or assets available to pay for in-home or nursing home care if needed? Alternatively, is your plan to qualify for Medicaid? Medicaid is a joint state and federal health insurance program with financial eligibility requirements that may assist individuals in paying for long-term care. Medicaid is different than Medicare, which is a federal health insurance program for people 65 or older and some people under 65 with certain disabilities or conditions. Medicaid offers benefits that Medicare doesn't normally cover, like nursing home care and personal care services.[14]

The financial requirements to qualify for Medicaid are stringent and include a 5-year lookback period (in all states except California) to ensure that the individual applying has not transferred assets for less than fair market value during that time. In addition, state Medicaid programs must attempt to recover the cost of certain benefits from the Medicaid enrollee's estate. That means that while some assets may be exempt during lifetime, they may still be subject to recovery by the state upon the individual's death.

[14] U.S. Department of Health and Human Services. 2022. What's the difference between Medicare and Medicaid? December 8. Accessed June 14, 2024. https://www.hhs.gov/answers/medicare-and-medicaid/what-is-the-difference-between-medicare-medicaid/index.html.

Individuals considering the use of Medicaid should consult with an attorney or other qualified advisor to learn more. Another chapter in this publication, Long-Term Care Planning for Farm Operations, explores this topic further.

Conclusion

In short, failing to plan *is* still a plan—a plan determined by law instead of by individual choice. Individuals should carefully consider the potential implications of intestacy, probate, estate tax, and long-term care needs in their estate and succession plans and decide how they wish to handle each concern.

The worksheet titled **Evaluating the "D" Risks** (pp. 38–41) in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Reflection:

1. **How do you feel about state law determining the distribution of your assets through intestacy laws if you pass away without an estate plan?**
2. **What challenges do you think your family may face during the probate process?**
3. **How might estate taxes impact the financial stability of your farm?**

Planning to Plan

By Joy Kirkpatrick, Farm Management Outreach Specialist, UW–Madison Division of Extension

How to start holding consistent, productive farm meetings with a purpose

People aren't usually drawn to farming for the business meetings. You never hear someone say they love farming because they love sitting in a meeting room talking about business. They will probably say they'd rather be **doing** anything—with animals, crops, machinery, you name it—than be sitting in meetings. But how do we know if we are doing the right things with animals, crops, machinery, etc., if we don't have a plan?

Taking time to plan with trusted advisors, whether you're farming on your own or with farming partners, is a key to success. However, building that meeting habit takes time and some effort.

Start out by considering the positive things that can happen with consistent meetings:

- Improved communications with partners and employees
- A clear direction for the week or month
- A chance to set priorities and shift labor where needed
- An opportunity to review production and financial records and set strategies for improvement on a timely basis accordingly

And while we're making lists, what are some barriers to having consistent meetings?

- Not seen as a productive use of time
- No good time for everyone to meet
- It will end up as a social gathering or a complaining session
- No one remembers what was decided

Some strategies to address these barriers are to start out with short operational meetings that have a clear purpose (and agenda). Begin with a 10- or 15-minute meeting and end on time—even if you're not finished with the agenda. Consider scheduling when you can provide some food as an incentive to gather, maybe coffee and pastries or a quick noon meal. Finally, take notes, even if it is a bulleted list of what everyone said and the follow-up tasks (including who is going to do them).

In this article by Angela Lovell in *Country Guide*, called “A plan for successful farm meetings,” one farm family says that meetings mean having everyone “on the same page,” which, for this farm, translates to everyone knowing what the objectives are for the year and how they will get there.

Before your farm can start having these productive, consistent meetings, you need to plan them—or what I call “planning to plan.”

While planning to plan and having meetings are important for every farm operation, they are especially important when you have farming partners. Whether your partner is a neighbor, relative, unrelated associate, or your children, you need to find a way to bring them into the planning and decision-making. On a multi-generation farm, the owner generation has been making decisions on their own or with a spouse or partner for years, probably decades. These discussions take place informally, as people are working together, driving together, or even getting ready for bed. While these discussions worked with one or two decision makers, they probably will not work as you bring others into the business.

Operational and Strategic Meetings

Operational meetings should happen often, be relatively short in duration, and involve those engaged in the day-to-day operation of the farm. Meetings should happen once a week for 30 minutes to an hour to discuss the tasks for the week. Set a time that works for everyone, be consistent in meeting at that time, and, if there isn’t a lot to cover, adjourn the meeting early rather than cancel it. Consistency is key.

Strategic planning meetings should involve key stakeholders, including spouses or partners who may not be involved daily but are affected by the big decisions that are made. These will be less frequent but longer meetings. Again, setting a time that works for everyone is important.

Provide an agenda beforehand so people know what to expect.

Meeting agreements, sometimes called meeting ground rules, can keep your meetings grounded in the tasks at hand and help everyone learn how to interact in new roles as business partners rather than as family members. Example meeting agreements can be found in the "Planning to Plan" worksheet from the *Cultivating Your Farm’s Future* farm succession planning workbook on page 45.

Some example meeting agreements are:

- Start and end on time.
- No cell phones.
- No side conversations or comments.
- Everyone is encouraged to participate.
- Listen without judging; hear each other out.
- Determine what stays within the group, what can be shared, and who it can be shared with.
- Stick to the agenda.
- Honor the commitments and decisions made by the group.

Start planning your consistent farm meetings by answering the following questions:

For operational meetings:

1. How often do we want to meet for operational discussions?
2. What is the best day and time?
3. How long should these meetings be? (Hint: If a meeting like this is new to your farm, even a 10- to 15-minute meeting that is consistent can help with communication.)
4. Who should be involved in these meetings?
5. What are the topics we will cover? (Examples: weekly workflow, tasks that need to be completed, scheduling shifts, time off.)

For strategic planning meetings:

6. How often do we want to meet for strategic discussions?
7. What is the best day and time?
8. How long should these meetings be?
9. Who are the key stakeholders who should be included?

Other meeting tips:

- Each meeting should have a chair or leader. Consider rotating meeting leadership so others get a chance to experience this leadership role.
- Have an agenda and share it out at least 24 hours prior to the operational meetings and 3 days prior to a strategic meeting.
- Choose or assign someone to take notes. This can be a rotating or assigned role.
- Record and share meeting notes, action plans, and task lists that come from the meetings.
- Begin each meeting with everyone sharing something that has recently gone well on the farm.
- Give compliments for jobs well done.
- Establish a way for staff or partners to share feedback (positive or negative) in a way that doesn't disrupt the meeting.
- Food always helps!
- *Cultivating Your Farm's Future* has a Planning to Plan worksheet that provides these questions and meeting tips and an example agenda.

Resources

Read or listen to this article by Angela Lovell in *Country Guide* called **"A plan for successful farm meetings"** at www.country-guide.ca/guide-business/a-plan-for-successful-farm-meetings/

Reflection:

If your farm does not meet consistently to talk about day-to-day planning, what do you think the barriers are to holding consistent meetings?

What are some strategies to overcome those barriers?

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The worksheet titled **Planning to Plan** (pp. 44-46) in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Why Defining Strategic Issues is Your Farm's Competitive Edge

By Joy Kirpatrick, Farm Management Outreach Specialist, UW–Madison Division of Extension

In the ever-changing landscape of agriculture, staying competitive requires more than just identifying challenges; it includes identifying opportunities as well. Both demand a deeper dive. Explore the power of defining strategic issues on your family farm. Taking this step can help you find creative solutions that lie beneath the surface, that can move your farm toward success and the destination you see for your farm and family.

Defining strategic issues is a crucial bridge between steps 2 and 3 in our three-step process:

1. Where are you now?
2. Where do you want to be?
3. How do you get there?

Step 1 is gathering information to assess the current situation. Step 2 allows businesses to imagine their future based on their values and goals. After taking these two steps, the question is: What do we do with this information?

Assessment of the current situation should be done at the individual, family, and business levels. *Navigating Your Ag Business: From Stress to Success* is an online course that encourages farm members to evaluate their current stressors, write a comprehensive description of the who, what, and how for the management of the business and engage in comprehensive financial analysis. Learn more about this course at go.wisc.edu/NYAB. A SWOT (strengths, weaknesses, opportunities, and threats) analysis allows all farm members to evaluate the farm from their own perspectives.

Reviewing the information gathered, the vision and goals of the members, and the SWOT analysis provides the opportunity for top issues to come to the surface. Each farm member should spend time developing their own list of concerns based on the data collected. Farm members can share their lists and determine shared concerns.

Don't jump to "fix-it" mode

This is the stage where a lot of businesses will jump right to "fix-it" mode. The culture within the business may be one where the first solution offered, or the solution offered by a certain person, is accepted without further discussion.

Resist the urge to take the first solution without further discussion about the issue. Take the time to explore the concerns or issues that have been raised within the discovery process. One way to explore the issues is to better define them.

Defining a strategic issue

Strategic issues are defined as critical challenges that must be addressed for a farm business to achieve its vision. They relate to big questions like:

- What does the farm do, sell, produce?
- Who are the farm's customers?
- How will the farm be competitive?
- Who is a part of the farm and what do they do?

Defining **and prioritizing** strategic issues is the bridge to Step 3 (How do you get there?), which is developing actionable steps that will move your agriculture business forward in a positive direction. You and your family/farm members define what success looks like through your vision and goals.

You can use the Issues Development worksheet (pg. 47–48) in the *Cultivating Your Farm's Future – Farm Succession Planning in Wisconsin* workbook to start defining the issues. It offers four questions to begin the process:

1. What is the issue? Remember, we've defined a strategic issue as one that must be addressed for a business to achieve its vision.
2. Why is it an issue? How will it affect the mission, products, the owners, consumers, the environment, etc.?
3. What is the time frame? When will it affect the business? Generally, a strategic issue is more than a year out, while things that are less than a year are considered operational. There are other factors on page 48 of the workbook that will help you determine whether the issue is operational versus strategic.
4. What are the consequences of not addressing the issue? What will happen if this issue is ignored?

You may also want to consider the issue from many perspectives, such as:

- Financial
- Legal
- Emotional
- Personal
- Family
- Religious
- Community

Selecting the top issue

If this process of defining your strategic issues creates or uncovers conflicts among farm members, you may need to circle back and revisit the data that led to your issue development. You may need to define a new issue based on communication, conflict, and perhaps differing visions or goals for the farm.

After you select the issue to address, now is the time to brainstorm strategies to address it and consider the barriers that may need to be overcome to address the issue fully.

In navigating the complexities of farm management, strategic planning is the compass that guides success. Moving beyond identifying challenges, the real power lies in defining strategic issues—a bridge between envisioning your farm's future and developing actionable steps. Your family farm's success hinges on addressing critical questions about what you do, who your customers are, and how to stay competitive. Use a straightforward process to identify, understand, and prioritize strategic issues, ensuring your farm not only survives but thrives in the ever-evolving landscape of agriculture. Take charge of your farm's future, define your strategic issues, and pave the way for a resilient future.

Reflection:

How will you bring your family/farm members together to work on developing and defining your farm's strategic issues?

Who gets to decide what is a strategic issue for you farm business?

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The worksheet titled **Issue Development Plan** (pp. 47-49) in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Long-Term Care Planning for Farm Operations

By Robert Moore, The Ohio State University Extension Farm Law Specialist

Family farms are different from other types of businesses in that a family farm is not just a business. The family farm is also a way of life and a celebration of family heritage. For most farm families, a primary goal of transition planning is continuing that family farm legacy for future generations.

Today, one of the biggest financial threats to the long-term viability of farms is long-term care (LTC) costs. Many farm families may struggle to pay LTC costs for the older generation. When cash or financial assets run out, farm assets may have to be sold to pay for the care. As our population continues to age and care costs continue to increase, this problem is not likely to go away. In fact, the financial pressure of LTC costs on family farms will almost assuredly become more acute in the future.

How likely are we to need LTC?

The first step in addressing LTC costs is to analyze the likelihood of needing LTC. According to the Administration for Community Living (acl.gov), a person turning age 65 today has a 69 percent chance of needing some type of LTC services in their remaining years. On the other hand, 31 percent of those over 65 will not require LTC. On average, those needing LTC will require about 3 years of care. Of those 3 years, around 1 year will be unpaid home-based care, 1 year will be paid home-based care, and 1 year will be in an institution. Another statistic, and perhaps the most important, is that 20 percent of 65-year-olds will need more than 5 years of LTC.

So, to summarize, about two-thirds of people will need LTC during their lives. That LTC will be about evenly split between unpaid in-home care, paid home care, and institutional care. About 20 percent of people will require more than 5 years of care.

How much does LTC cost?

The next step in assessing LTC costs is to determine the LTC costs for your area. The best source on LTC costs is the Genworth Cost of Care Survey that can be found online (genworth.com/aging-and-you/finances/cost-of-care.html). The median national cost of in-home services was around $77,769 in 2024 and a semi-private room at a nursing home facility was around $107,146. The following is a summary of LTC costs in a few states:

Annual Cost of Long-Term Care ($)

	U.S.	Ohio	Wisc.	Penn.	Minn.	Missouri
Home Health Aide (44 hr/wk)	77,769	75,412	76,591	71,873	86,017	94,266
Assisted Living	66,126	65,437	67,980	68,598	66,126	59,955
Nursing Home, Semi-Private	107,146	103,386	126,695,	133,086	127,071	73,310
Nursing Home, Private Room	120,304	117,672	125,943	142,861	158,275	80,829

Table adapted from Genworth Cost of Care Survey (genworth.com/aging-and-you/finances/cost-of-care.html)

Note that costs vary significantly between states. For example, the cost of a nursing home in Minnesota is nearly twice as much as the cost in Missouri. Be sure to check the Genworth Survey for LTC costs in your area.

If we combine the odds of needing LTC with the costs of LTC, we can establish an idea of potential LTC costs. For 31 percent of people, those not needing any LTC, their LTC costs will be $0. For the 69 percent of people who will need LTC, the average LTC will be around $184,915 (U.S. median). This value is determined by adding 1 year of unpaid in-home care, 1 year of paid home care ($77,769), and 1 year of nursing home care ($107,146). However, for the 20 percent of people who will need more than 5 years of LTC, the cost will be in excess of $399,207.

What is the actual risk of LTC costs for a farming operation?

Having established the odds of needing LTC and the cost of LTC, next we need to analyze the actual risk of LTC costs for the specific farming operation. Some farm operations are at great risk due to LTC costs while other farms can absorb LTC costs without much difficulty. Until we assess the risk, we cannot know which LTC planning strategy to implement.

The assessment essentially looks at the potential LTC costs compared to the ability to pay those costs. Farm operations that have sufficient income to pay LTC costs generally need less aggressive strategies. Farms that will be forced to sell farm assets to pay for LTC will likely need more aggressive strategies, such as gifting assets.

Let's assume a farmer calculates that, based on averages, their LTC cost may be around $157,000. The farmer expects to have $100,000 of annual income plus has $500,000 of savings. The farmer will be able to pay at least 10 years of LTC using only income and savings. The farmer's risk to LTC costs is low and they may be able to avoid aggressive asset protection planning.

Assume the same costs but the farmer has $50,000 income and $100,000 savings. This farmer will only be able to pay for 1 year of LTC costs before assets are required to be sold. This farm operation faces significant risk due to LTC costs and may need to take aggressive planning to protect farm assets.

Medicaid

Before exploring LTC strategies, a basic understanding of Medicaid is needed. Medicaid is a joint state and federal program that generally pays medical costs for people without the resources to pay the costs themselves. For those who qualify, Medicaid will pay for nursing home costs and some other LTC costs. Medicaid rules vary from state to state; be sure to know the Medicaid rules in your state before taking any actions.

An asset test must be met to qualify for Medicaid. In most states, an unmarried person may not own more than $2,000 of assets and a married couple may not own more than $135,000 of combined assets. Assets owned in excess of the minimum amount must be spent down before the applicant will qualify for Medicaid. Some assets, such as residences, may be exempt from the asset limitation amount, but Medicaid may apply a lien to these exempt assets to collect payment at death.

Medicaid rules also include a 5-year lookback period to prevent applicants from transferring assets shortly before application to meet the asset test. Any improper transfers made in the 5 years prior to application will cause ineligibility. For example, in Ohio, the applicant is ineligible for 1 month for each $7,453 improperly transferred. An improper transfer is any transfer that was made in which less than fair market value was received. For example, an applicant that gifted $75,000 to a family member in the 5 years prior to Medicaid application will be ineligible for 10 months.

Due to the restrictive asset test, few farmers will qualify for Medicaid without aggressive planning. Additionally, due to the 5-year lookback, Medicaid planning must be done 5 years before eligibility is required. The 5-year lookback rule makes LTC challenging for farmers because projecting 5 years into the future will always include a significant amount of speculation and plans must be implemented 5 years before LTC costs are incurred.

LTC Strategies

After the risks of potential LTC costs are considered and the implications of Medicaid are understood, the different available strategies can be considered. There is no perfect strategy; each strategy includes both advantages and disadvantages. Legal, tax, and financial advice should be sought from competent advisors before a strategy is decided upon and implemented. The following are some of the more common LTC planning strategies for farm families.

The Do-Nothing Strategy

We usually think of doing nothing as a bad strategy. However, with LTC planning, this may be the appropriate strategy. For people with adequate income to cover LTC costs, there may not be any additional planning needed. If income will cover LTC costs, their assets will never be at risk. The disadvantage to this strategy is that if income ever becomes inadequate, all assets are at risk to LTC costs.

Gifting Assets

Gifting assets is a preferred LTC strategy for many people. The strategy is to give away assets and wait for the 5-year lookback period to lapse so that the gifted assets are safe from LTC costs. The advantage of gifting is it is relatively easy and inexpensive. Two disadvantages of gifting are they trigger the improper transfer rule and the person receiving the gift does not receive a stepped-up tax basis.

Irrevocable Trusts

This strategy involves essentially gifting assets to an irrevocable trust. The original owner may not own, access, or control the asset after it has been transferred to the irrevocable trust. Because the original owner no longer has access to the assets, the assets will not be included in the Medicaid estate. However, the 5-year rule applies to the transfer of the assets to the irrevocable trust. The advantage of this strategy is that it can be incorporated into an estate plan and include provisions for the beneficiaries who will ultimately receive the assets. The primary disadvantages of the irrevocable trust strategy are that it cannot be changed once implemented and there are often significant legal fees to establish the trust.

Wait-and-See

Many farmers adopt a wait-and-see approach for LTC costs. The idea is to wait to see when and if LTC is needed. At that point, if necessary, assets to be protected are gifted or transferred to an irrevocable trust. This strategy requires enough resources to cover LTC costs until the 5-year lookback period ends, then all assets transferred at the beginning of the lookback period will be safe. The advantage of this strategy is it remains flexible and can be adjusted over time. The disadvantage is that the resources required to pay for 5 years of LTC will not be protected.

LLCs and Business Entities

LLCs and other business entities can be incorporated into LTC plans. Simply transferring assets to an LLC does little for LTC planning, but an LLC may help implement some of the strategies identified above. For example, instead of landowners gifting land to their children, perhaps they put the land in an LLC and gift the LLC to the children.

Self-insure

Another strategy is to self-insure against the possibility of LTC by setting aside specific assets to use for LTC costs. Typical assets would be cash or financial investments but could also include any type of asset, such as land. As LTC costs arise, the designated assets are used to pay the costs. The advantage of this strategy is retaining full control over all assets and no costs are incurred to transfer assets. The disadvantage is that no assets are protected from potential LTC costs.

LTC insurance

LTC insurance policies cover some LTC costs for an individual. LTC insurance policies, in many ways, provide the most flexible LTC plan. If a policy can be obtained to cover all LTC costs, or at least cover the deficiency that income does not cover, farm assets can be protected. Therefore, a person can keep their assets and continue to enjoy and use them for the remainder of their lives. However, it may be a challenge to find LTC insurance to cover all of the costs, it can be expensive, and people with preexisting medical conditions may not be insurable.

Combining LTC strategies

The strategies discussed above are not exclusive. One or more strategies may need to be combined to serve the needs of a farm family. For example, perhaps some assets are gifted and an LTC insurance policy is obtained to cover the 5-year lookback period and protect the gifted assets. Or another approach could use an LLC in combination with an irrevocable trust. All strategies should be considered for an LTC plan, as well as the possibility of using a combination of strategies in the plan.

Conclusion

Planning for LTC costs is not a simple or easy process. The potential implications of LTC costs on farming operations should motivate farmers to spend time with their legal, tax, and financial advisors to assess the risk to their farming operation. Upon determining the risk, the appropriate strategy can then be implemented. While there are no perfect solutions to the LTC cost dilemma, good planning can significantly reduce the risks of LTC and help ensure the transfer of a viable farming operation to future generations.

Reflection:

Have you researched the cost of long-term care in your state and county?

Which of the long-term care strategies do you want to learn more about?

How can you start researching and evaluating those strategies for your own situation?

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The worksheet titled **Issue Development Plan** (pp. 47-49) in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Inherit It or Marry It… or Co-own a Farm?

By Kelly T. Wilfert, J.D., Farm Law Outreach Specialist, UW–Madison Division of Extension

Young farmers are often familiar with the old adage: if they want to own a farm, they must *inherit* it or *marry* it. However, farm succession planners know there's a third, perhaps equally challenging, strategy: co-ownership. If you want to become a farm owner but aren't sure you can afford to do it on your own, co-ownership could be a solution. In fact, farm succession plans often include stages of co-ownership of the farm. Co-ownership can help lessen the financial and managerial challenges of transitioning an operation all at once. Keep in mind that having a business partner may be just another type of marriage. Here's how co-ownership works, along with risks and benefits to consider.

What can be co-owned?

Multiple owners may divide ownership of individual assets such as land, equipment, or livestock. Alternatively, if a farm is structured as a legal entity such as a limited liability company (LLC) or corporation, the entity may own some or all of the farm assets, and the owners instead simply share ownership of the entity.

How does co-ownership happen?

Co-ownership can be a conscious choice. A transition or sale may be structured in stages, requiring the current owners and the future owners to work together as the farm transitions. Other individuals may *choose* to become business partners, purchasing and operating a farm together. Still other farmers may work with a 'silent' partner—one who invests as an owner but does not assist with day-to-day management.

Alternatively, co-ownership may also occur involuntarily. Perhaps a creditor takes ownership of one individual's assets as payment. Maybe an heir or beneficiary receives partial ownership alongside another heir or beneficiary. Involuntary co-ownership can also occur when an individual fails to make an estate plan and their assets are distributed in equal shares to multiple heirs based on state law. Passing partial ownership through an estate plan or gift may be a conscious choice by the giver, but it may not necessarily be what the heirs or beneficiaries may have chosen if given the opportunity to weigh in.

What are the risks and requirements of co-ownership?

Whether co-ownership is a conscious decision or is forced upon individuals, many of the underlying rights and obligations remain the same. Some of the rights and risks of co-ownership are fiduciary duties. Co-owners owe one another fiduciary duties of loyalty, care, good faith, and fair dealing. These duties generally mean that each will manage the company and its assets to perform in the best interests of the company. No co-owner is to use the company's property for their own purposes, take advantage of a company opportunity for one's own benefit (unless it is also in the company's best interests), compete with the company, engage in a transaction where the co-owner has a conflict of interest, take an action that is not in the company's best interests, or engage with the company in bad faith or unfairly, among other things. In short, the co-owners are to make decisions for the company that are in the company's best interests. However, co-owners may disagree about what actions are best for the company. While a majority vote may decide the direction of the company, a minority owner may still have a right to challenge the action as being against the company's best interests (i.e., that the other owner(s) violated a fiduciary duty).

The owners may waive some fiduciary obligations by written agreement. These agreements are known by a number of names, such as tenancy-in-common agreement, partnership agreement, operating agreement, or bylaws. Potential co-owners should carefully consider the rights of other co-owners in managing the business, including fiduciary duties, as well as the risks and benefits of waiving those fiduciary duties.

Another right and risk of co-ownership relates to the characteristics of the type of co-ownership. While a farm or its assets may be owned in a legal entity, they may also be co-owned outright as either a joint tenancy or a tenancy-in-common.

A joint tenancy is when two or more co-owners have an equal interest in the property, regardless of unequal contributions at its creation.[1] In Wisconsin, a joint tenancy is assumed to include rights of survivorship, unless otherwise stated. Therefore, upon the death of a joint tenant, the other joint tenants succeed to that decedent's interest. For example, if Bill and Judy are joint tenants in a 40-acre field, then upon Bill's death, Judy becomes the owner of the entire field, regardless of what Bill's will may say or what his heirs may desire. If Bill, Judy, and Robert are joint tenants of a different 40-acre field, then upon Bill's death, Judy and Robert become joint owners of the entire field, receiving Bill's portion and splitting it between them.

A tenancy-in-common has a different result. A tenancy-in-common is a different type of co-ownership. In a tenancy-in-common, the co-owners are presumed to own equal undivided interests in the property but may specify a different ownership split (i.e., 60-40, 75-25, etc.). Regardless of the split, the co-owners in a tenancy-in-common do not have rights of survivorship. For example, if we review the ownership of Bill and Judy's 40-acre field and find it is a tenancy-in-common, then upon Bill's death, the property passes pursuant to Bill's estate plan or intestacy distribution rules. Judy does not automatically receive Bill's ownership.

A joint tenancy may be unilaterally broken and transformed into a tenancy-in-common, typically as simply as recording a quit claim deed to that effect. The other owner(s) need not agree. Farmers considering this option should discuss the process, costs, and concerns with a licensed attorney in their state.

[1] Wis. Stat. 700.17(2)(a)

While business partners are afforded automatic rights to business information and decision-making in the interest of the company, farmers should consider whether those rights are appropriate for their business and the individual(s) they are considering as co-owner(s). Much like a marriage, entering into co-ownership is a long-term decision with major consequences. If one chooses to embrace a business marriage through co-ownership, carefully discussing the rights and obligations of each party before disputes arise can be key in managing the farm successfully.

How can the risks of co-ownership be managed?

While adding a co-owner to a farm has risks, written agreements outlining the details of co-ownership can save farmers from many headaches down the road. It is easy to want to rely on a handshake agreement or a familial relationship to "do the right thing," but this poses risks for everyone. Relationships, understandings, and feelings can change without warning. Think of this written agreement as the pre-nuptial agreement in your business marriage.

> *"If my business partner was possessed by a brain-eating monster from [outer space] tomorrow, what's the worst thing they could do to me?"*
>
> *– Charles Stross*

Arguments about managing the farm, misuse of farm bank accounts, liability for other co-owners' actions, lawsuits for partition[2]…how might they disrupt your farm? A well-written agreement drafted by an attorney can iron out the details for handling disagreements, death, debt, divorce, or other situations that could derail your farm before they ever even occur.

As mentioned above, this type of agreement may be identified by any number of names—a partnership agreement, operating agreement, company agreement, LLC agreement, member agreement, shareholder agreement, bylaws, buy-sell agreement, transfer agreement, etc. An attorney can help you identify the correct agreement for your specific situation, but regardless of what you call it, you may wish to consider including the following items.

[2] ***Partition*** *is a legal process used to divide property among co-owners, typically when they cannot agree on how to manage or dispose of property. This often occurs with inherited property, such as farmland, where multiple heirs may have differing opinions on its use or sale. If the co-owners cannot agree on management or disposition, any one can ask a court to divide the property. Alternatively, if the property is not divisible, the court may order the sale of the property and distribute the proceeds to the co-owners. Addressing rights to partition (or waivers of partition) in a written agreement can help limit this risk.*

Operating Agreement Considerations

- **Ownership:** Who are the owners? What will they contribute in exchange for ownership? Are future contributions required? Are members allowed to withdraw their capital contributions, and if so, under what circumstances? How may new members or owners join the business?

- **Management:** Who makes day-to-day decisions? Who makes 'big' or long-term decisions? What is a 'big' or long-term decision (borrowing money above a certain limit, selling the company/assets, etc.)? Is the manager obligated to dedicate any particular amount of time to the management of the business? Can the day-to-day decision maker ('manager,' 'CEO,' etc.) be replaced if the owners are unhappy or if something happens to that individual and they are unable to perform their duties?

- **Voting:** Is voting based on percentage of ownership or one vote per person?
- **Deadlock:** What happens in the event of a stalemate (i.e., if two owners are 50/50 and can't reach an agreement, how is the decision made?)?
- **Buy-Sell Restrictions:** Who may an owner transfer their interest to? Does it require the other owner(s) to approve? Do other owner(s) have a right of first refusal? How are price and payment terms determined? If one owner wants to sell, do the other owners have a right to force the buyer to also buy their interests (drag-along rights)? If some but not all owners want to sell, can those owners force the holdouts to also sell their interests (tag-along rights)? How do these restrictions apply in the event of the death or divorce of one of the owners?
- **Financial Rights:** Are owners paid in proportion to their ownership interests? Does anyone have a preferred interest where they are paid first? Who decides how much money should be retained and reinvested in the farm?
- **Guaranteed Payments:** Do any owners receive 'guaranteed' payments (wages, salary, etc.) before the company profits are paid out?
- **Life Insurance:** Should key person life insurance be purchased to fund the purchase of a deceased owner's interest in the company?

A licensed attorney in your state may have additional questions and considerations for you and your potential co-owner(s) to consider.

Adding a business partner to your farm operation is a decision that should not be taken lightly. It may impact your borrowing capabilities, decision-making, the future of the operation, and your own succession and transfer options. Much like a real marriage, a business marriage is a serious ongoing contract that is not to be taken lightly.

Reflection:

1. **What are your reasons for considering co-ownership?**
2. **What are the potential benefits of co-ownership?**
3. **What risks of co-ownership are you most concerned about managing?**

The worksheet titled **Operating Agreement** (pp. 50–53) in *Cultivating Your Farm's Future: A workbook for farm succession planning* may help you start a conversation around the topic from this chapter.

Cultivating Continuity

Expert Insights for Farm Succession

A companion to Cultivating
Your Farm's Future workbook

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