AG SUCCESSION PLANNING:
CURRENT THOUGHTS AND LESSONS LEARNED

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WHAT WE WILL DISCUSS TODAY

• Why we don’t plan – the need for planning
• The steps we could use for planning
• How communications is the most important part of any Estate Planning
• Not letting typical negotiation strategies interfere with planning
Retirement Plans for Iowa Farmers (2019)
WHY ARE FARMERS RETIRING AT A LATER AGE – OR ONLY SEMI-RETIRING?

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

On-line Survey, Fall, 2017
NOT TRYING TO EMBARRASS ANYONE INTO RETIREMENT

They are NOT planning to retire.

However, the lesson must center on the idea - which is:

No one avoids the pine box.

What happens to your stuff when you are gone?
ESTATE PLANNING

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

• Too complicated (we assume)
• Don’t like to plan
  • It is mental ‘work’
• Facing our own mortality
  • Some just don’t want to think about death
• We are afraid that if we do something, it will be wrong (in the future)
Near the end of any career, three types of planning:

- End of Life Plans/Documents
  - Power of Attorney – health
  - Power of Attorney – personal
  - Health care directive
- Estate Plan
  (will, trust, LLC, other structures)
- Business Succession Planning

Communications with Family needed for all three!
CIRCLE OF INACTION

1. I should have a plan.
2. I go to a meeting or meet with a lawyer.
3. Wow! This is complicated! I have a headache!
4. No action taken at this time.
IDEAL PLANNING - SEQUENTIAL

I should have a plan or there is a catastrophic event

Complete an inventory of my assets (detailed balance sheet)

Family meets to explore options

Meet with my professionals to explore options

Options picked

Succession plan developed/signed – Congratulations!

Review periodically and/or as your situation changes
THE LESSON IS, PLEASE HAVE A PLAN!

No plan leads to chaos in many situations

Causes greed

Splits families

See next video – monkeys!
Test of Fairness - Emotions
FIRST CONVERSATION REGARDING ANY ESTATE PLAN

1) When you are done – will you still have a family?
   Don’t make that assumption – get that commitment

2) Are Mom/Dad, or Grandpa/Grandma on same page?
   This needs to be a priority before diving into details.
Step one: What do you have?
- Great list of your assets/inventory/investments/everything!
- Consider using ISU Ag Decision Maker file – C4-57 Estate Planning Questionnaire
  • List how things are owned
  • List debts (if any)
Step two --- Meet with family

• Get input and find out who is interested in what.
• No decision making!
• Be sure you have appropriate people included.
FAMILY MEETINGS

Plan carefully to avoid disaster

Who to invite?

Meeting to allow all to have input

Set clear ground rules:
1) No criticizing ideas
2) Institute ‘gag’ rule if needed
FAMILY MEETINGS – DECISION MAKING

Use the Golden Rule

Who to invite?

Meeting is about decisions

Set clear ground rules:
Majority vote or unanimous vote?
FARM/RANCH SUCCESSION OR TRANSFER - SIMPLIFIED

Step three: what do you want to do with that?

• In your perfect world, write down what happens to your stuff
• Instructions for the succeeding generations – let your thoughts be known
  • Keep – in family
  • Sell
  • Gift – to specific family member or to charity
  • TOD, POD (transfer or pay on death)
  • Don’t care
FARM/RANCH SUCCESSION OR TRANSFER - SIMPLIFIED

Step four: employ your ag professional(s) and they will make your dreams happen!

Consider and use these as needed for your situation

- Lawyer
- Financial planner
- Certified farm transition specialist
- Banker
- Insurance agent
- Tax preparer (CPA, etc…)
FARM/RANCH SUCCESSION OR TRANSFER - SIMPLIFIED

Summary:

• Avoid circle of inaction
• Don’t worry about the tool -- your professional(s) will figure that out.
• If one of your team is hard to work with, or hard to understand, find someone else!
SUCCESSFUL TRANSITIONS - CONSIDERATIONS

Older Generation

• Retirement lifestyle (money needed) – travel and other activities
• Residence – has that been discussed?
• How are you treating non-farm or non-business heirs (sons and daughters)
  • Fair vs. Equal – consider grandchildren?
  • Contribution
  • Compensation
SUCCESSFUL TRANSITIONS - CONSIDERATIONS

Younger Generation

• Lifestyle (money needed)
  • Know that some in older generation don’t agree with some spending
• Growth of business – at what pace?
• Attitude toward debt
• Ownership vs. Renting – may or may not have choice
• Family Time vs. Work
  • Older generation values ‘work’
PHASES OF TRANSFER TO NEXT GENERATION

1 - **Testing** (will the next generation do ‘all’ tasks?)

- Help with calving – during blizzard, nights, and weekend
- Fencing - all
- Scooping – (anything)
- High work – on ladders
- Low work – on knees or underground
**PHASES OF TRANSFER TO NEXT GENERATION**

2- **Management Transfer** (planned with timing)

- Once you past the ‘testing’, start management transfer
- Slowly – not all at once
- Put plan in place, include dates
- How does anyone learn? By making mistakes.
  - Give management to younger generation
    - Let them gain experience
    - Don’t give enough to sink operation
    - Don’t interfere with their decisions
3 - **Asset or Enterprise Transfer** (livestock or machinery)

- For livestock – if the next generation is helping with calving – they receive a % of the calf crop
- For either crops or livestock – use the gift tax exclusion each year
  - $16,000 per person can be transferred or gifted per year

**PHASES OF TRANSFER TO NEXT GENERATION**
PHASES OF TRANSFER TO NEXT GENERATION

Whole Farm/Business (farmland) Transfer

- Given current tax laws, will occur at the passing of the previous owner
  - Gives next generation the stepped-up basis
  - Works for trusts and most corporations – not for sub chapter (S) corporations

- Some want to gift farmland while they are still alive
  - Be careful
  - Changes in family can be troublesome
  - Basis is not changed for gifts – can be a problem
OTHER THOUGHTS - TRANSITION

- Do all with written plans (that include dates)
- Include exit plans (for either generation)
- Use Job descriptions
  - Clearly define who oversees what
  - You still help each other with all tasks
THE PARENTS’ GENERATIONS MAKE SEVERAL ASSUMPTIONS – ARE THEY RIGHT?!!!

• Our business is OUR business, it does not get shared with anyone!
• The kids all get along great now – I know that will continue…..
• I know that my children will want to keep this asset in the family – even when we are gone
• The kids will just have to figure out how to divide – I’ll be gone. I don’t care what happens.
• Since I have four children – my assets have to be divided 25% to each – equally – that will be the fair way to do it
• “Some day, this will all be yours!”

In some cases – these assumptions are great – however……..
COMMUNICATE

• Listening is the key!
• First, understand – then to be understood

• (Practice) Make partner repeat what they thought you said – to be sure that they heard you, or that you said what you wanted to
COMMUNICATE (CONTINUED)

Step two:
Practice – **Asking clarifying questions**
- Listen for the answer – repeat and add a clarifying question
- Listen for answer – add another clarifying question
- Never talk about yourself or what you’d like to say
COMMUNICATE

• Share with non-local family

• Surprises cause problems – sweetheart deals

• Younger Generations require better communications than what we’ve received
COMMUNICATIONS MISTAKES

• Asking a question - not to find out what they will say, but to say what you wanted to say

• Making any assumption of what someone else will say

• Thinking about how we will respond while the other person is talking

• Trying to fix an issue, without being asked (see next video)
IT IS NOT ABOUT THE NAIL!
HOW OFTEN DO WE NEGOTIATE?
What is Negotiation?

A back-and-forth process designed to reach an agreement when you and the other party have both shared and opposed issues.
NEGOTIATION – TIPS AND TACTICS

- Commitment (extreme position)
- Final Offer
- Last Offer
- Final Last Offer
- Threat to walk

- Split the Difference Compromise

- Final Last Offer
- Last Offer
- Final Offer
- Commitment (extreme position)
How were most of us taught to negotiate?

• Allan’s Dad taught Allan how to negotiate!
  – We had to ‘WIN’

• How does winning work with family?
  – Will family members feel good if they feel like they ‘lost’
Negotiation

• Not about winning! (especially with families)

• How do you create value for all parties? (win – win)

• Think outside the box! Get creative!
Creating more value – via Star Wars
LAND LINK

• Started February 1, 2021
• Problem – two-fold
  • Land seekers don’t have access to land so they can farm/ranch
  • Older generation does not have succession path
    (their children are not farming/ranching)
• Matches Land Seekers with Land Owners
• Applications will be used with both groups
• All applications will be reviewed – follow-up phone interviews will be completed
  • Possible land seeker matches will be shared with land owners to decide who they want to interview
IF INTERESTED IN LAND LINK

• [https://cap.unl.edu](https://cap.unl.edu) – look for land link
• Online information and application is at this website
• Questions – contact Allan
SUMMARY

- Why we don’t plan – the need for planning
- The steps we could use for planning
- How communications is the most important part of Ag Estate Planning
- Not letting typical negotiation strategies interfere with planning
TEACHING NEBRASKANS
FARM/RANCH TRANSITION AND SUCCESSION
LESSONS LEARNED OVER 43 YEARS

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