

“Planning for the Future of Your Farm” Planning & Discussion Guide

Congratulations for participating in one of OSU Extension’s **“Planning for the Future of Your Farm”** workshops. Make no mistake about it---planning for your family and farm business to function without you is a humbling process. It is also not an easy process and will take time and will test your patience.

There is no “recipe” to follow as you develop your plan. Given the complexity of individual farm businesses and the unique personalities and characteristics of family members, a cookie-cutter plan, which families can adopt, does not exist. Transferring a family farm or farm business to the next generation can be a challenging task. Legal issues, tax laws, family dynamics, the farm’s financial position, and managerial styles are some of the issues families must confront when deciding how to transfer the managerial and asset control of a family business. Working together, families can answer the tough questions and develop a transition plan that will provide the opportunity for the agricultural business to be successful for many generations.

The materials provided in this packet were developed to serve as a resource as your family plans for the future of your family farm. It is recommended that each member who is contributing to the farm transition (succession) discussion complete each sheet individually and then the family can meet to have a group discussion. For some areas, it may be helpful to have an outside facilitator lead the discussion. Where appropriate, we have also included additional OSU Extension resources which can be accessed for additional information and guidance.

Best wishes for the process of successfully transferring your farm to the generation! The OSU Extension Farm Office Team is here to help you. Our team has a series of factsheets on farm transition planning and other planning documents available for your use located at <http://farmoffice.osu.edu> In addition to these resources and our workshop, we are also available to speak at other events and to conduct kitchen-table meetings with your farm family. Do not hesitate to drop me an email at marrison.2@osu.edu for more details.

Sincerely



David Marrison, Professor, OSU Extension

Why Don't We Plan?

What are some of the reasons why farm families don't plan for the transition of the business to the next generation?

1. _____
2. _____
3. _____
4. _____
5. _____

Farm Transition Planning

Farm transition (succession) planning involves the strategic transfer of ownership and management of a family business to the next generation.

Farm Estate Planning

Farm estate planning involves the thoughtful and structured process of deciding the distribution of the farm's assets and operations following the passing of the principal operator(s).

What Would You Do?

You have 7 weeks to live..... what are the five most important things you need to do to get your farm business and family ready to continue after you pass?

Farm Business

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____

Family

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____

Bucket List

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____



Farm Transition Planning Phases

Farmers are very proficient at solving the day-to-day problems on their farm. When a problem arises, the cause is determined, potential solutions are developed, and then action is taken. When it comes to fixing a broken piece of machinery or overcoming the latest crop disease or insect, the traditional problem-solving method works pretty efficiently and effectively.

However, farm transition planning does not always fit neatly into the “see a problem” and “fix the problem” process. So, what can be used to help farms start the process of planning for the future of their farm? Our OSU Extension Farm Office team has created a model which melts the traditional problem-solving model with the appreciate inquiry model which has been used for decades in futuristic planning for communities.

The **Discovery Phase** examines the legacy of what has been, identifies heirs, and takes a comprehensive look at the current business. The **Dream Phase** allows the family to identify future goals and to get input from all generations. This then leads to the family establishing effective communication patterns in the **Dialogue Phase**.

The family then works collectively to plan for the future through the **Design Phase**. This includes developing plans for managerial and asset transfer. It also allows the group to plan for the unexpected issues or the “elephants in the room” which may hinder the success of the transition plan. In the **Destiny Phase**, the family implements the plan. This usually involves transferring ownership, management responsibilities, and knowledge from one generation to the next. It is important for families to keep the lines of communication open to address any challenges or to make any needed adjustments. The implementation of a farm transition plan may take 5-10 years. And make sure to celebrate milestones and successes along the way!

“By taking the time to stop and appreciate who you are and what you’ve achieved - and perhaps learned through a few mistakes, stumbles, and losses - you actually can enhance everything about you. Self-acknowledgment and appreciation are what give you the insights and awareness to move forward toward higher goals and accomplishments.” Jack Canfield

<i>Transition Planning Phases</i>	<i>Key Steps</i>
Discovery	Appreciation Identify Heirs Analyze the Business
Dream (Brainstorming)	Identify Future Goals Gain Input from Heirs
Dialogue	Family Communication Identify Communication Barriers Family Business Meetings
Design	Managerial Transition Anticipation of Unexpected Address Elephants Align Estate Plan
Destiny (Implementation)	Succession Timeline Constant Evaluation
<i>Succession is a Process to Embrace</i>	

Appreciating the Farm Legacy

Families are encouraged to pause during the farm transition process to appreciate the legacy of the farm. Family members are encouraged to share stories and experiences of the farm's successes and positive moments throughout its history. This allows everyone to acknowledge and appreciate the strengths, values, and achievements that have contributed to the farm's success.

What is the history of the family & farm?

What are “points of pride” (historical & current)?

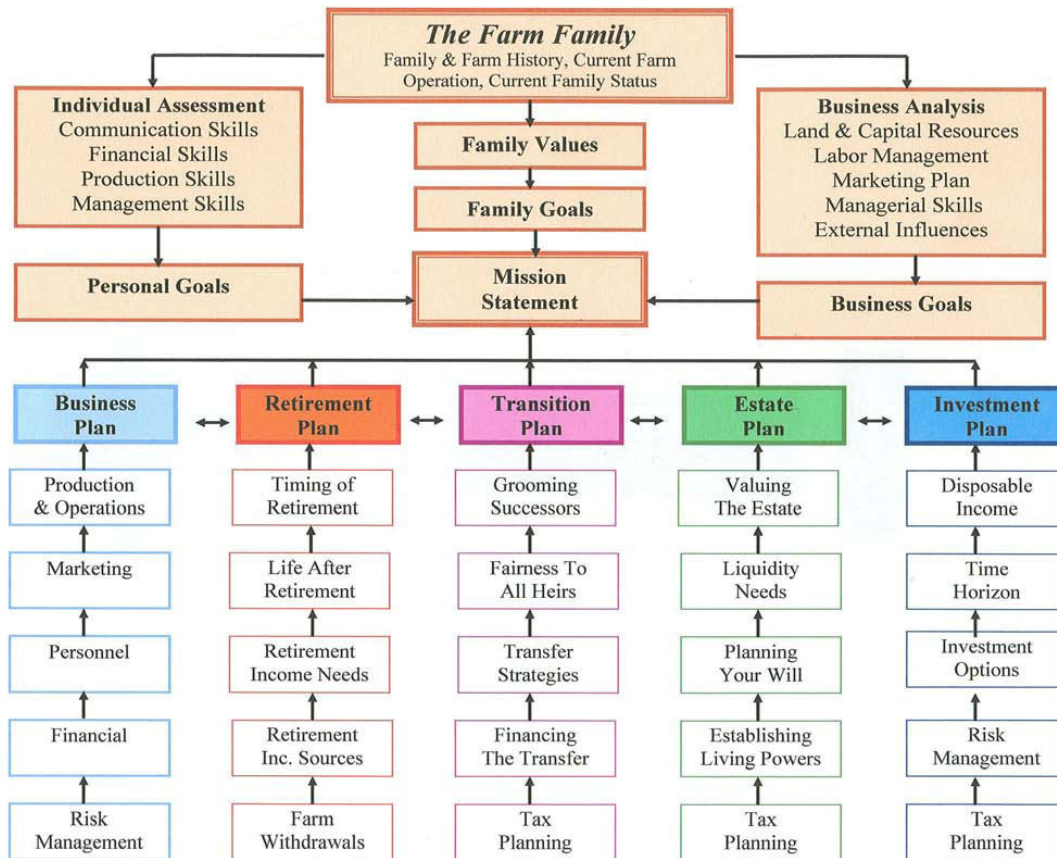
What is the farm's mission?

What values drive the family?

What legacy does the current operator(s) want to leave?

The Farm Family

At the center of most farms and agricultural businesses is the family unit. Each family, individually and collectively, has its own history, values, and goals. It is valuable for the business to begin the planning process by reflecting on family and farm history. All generations involved can learn valuable lessons by examining past successes and disappointments. The underlying values and goals of the family unit should also be determined. While these values and goals oftentimes remain unspoken, they have a large impact on how family members treat those around them and make business decisions. A critical look should also be given to understanding the effect that family members could have on the farm operation, especially those (spouses, in-laws, cousins, ex-spouses) who are not directly involved in the day-to-day operations.



Resources:

Planning for the Successful Transition of Your Agricultural Business factsheet. Access at:

<https://ohioline.osu.edu/factsheet/anr-47>

Whole Farm Planning Model factsheet. Access at <https://ohioline.osu.edu/factsheet/anr-52>

Passing on the Farm Business

Farm transition and estate planning begins with establishing your goals for what happens to the farm in the future. Is your goal to pass the farm on as a functioning business to your children or someone else? Or maybe you will sell the farm when you are ready to retire. Maybe your kids will inherit it and manage the farm as landlords. Looking into the future, what would you like to see happen? Or maybe you will own the farm until your death and then you will allow your heirs to decide whether to farm, lease, or sell it. Once you have decided what your goal is, you should ask your heirs what their goals are for the farm.

What Will Happen to the Farm in the Future?

Rank your preference with 1 being the most preferred option.

- _____ Pass it to a family member who will continue to farm it.
 _____ Pass it to a family member who will manage it as an “asset” (landlord).
 _____ Sell it as a farm to another farmer.
 _____ Sell the farm when I pass and distribute proceeds to heirs
 _____ Leave it to my heirs who can decide what to do with the farm
 _____ I don’t know yet.
 _____ Other _____

My (or our) goal for the future of the farm is:

The goals that my HEIRS have for the farm are:

WHO ARE MY HEIRS?

Many people are involved in many different communities and social circles that they may want to support upon their passing. Please list all the different entities, people, and organizations you would like to be part of your life's and farm's legacy. Give some thought on who your heirs will be and what inheritance you would like each to receive.

Family & Friends	Church/Charities
Civic Organization/Foundations	Community

Who or whom will be the best care takers of the farm and land that I was entrusted with?

“Questions for My Heirs” Worksheet #1

What do you appreciate about the farm?

What are your thoughts on who should own and operate the farm in the future?

How would you like to be involved in or with the farm in the future?

What Income is Needed?

How much income does each generation need from the farm operation?

Retired Generation: \$ _____
Senior Generation: \$ _____
Intermediate Generation: \$ _____
Junior Generation: \$ _____

Total Income Needed: \$ _____

What is our historic Net Farm Income?

2023: \$ _____
2022: \$ _____
2021: \$ _____
2020: \$ _____
2019: \$ _____

What are some strategies to increase Net Farm Income?

1. _____
2. _____
3. _____
4. _____
5. _____

How Much Income Do I Need?

How much income must each family member earn from the farm business is another major question to answer. Each member of the family business should analyze their financial needs.

Estimating our Family's Income Need from the Farm		
Family Living Expenses (\$/year)	Current	Future
Food & Meals		
Medical Care/Health Insurance		
Household Rent or Mortgage		
Household Supplies		
Household Utilities		
Household Real Estate Taxes		
Homeowner's/Renter's Insurance		
Household Repairs		
Clothing		
Personal Care		
Child/Dependent Care		
Gifts/Cash Donations/Tithing		
Education Expenses		
Recreation/Vacation		
Retirement Funds		
Non-farm Vehicle Operating Expenses		
Life Insurance		
Pet Food & Care		
Income Taxes		
Furnishings & appliances		
Non-farm vehicle purchase		
Non-farm real estate purchases		
Other non-farm capital purchases		
Non-farm savings & investments		
Other _____		
Other _____		
Other _____		
Total Family Living Expenses		
Non-Farm Income ^(d)		

SWOT Analysis

Many businesses conduct a SWOT analysis to identify the *Strengths*, *Weaknesses*, *Opportunities*, and *Threats* of the business in order to keep pace with the competition. A SWOT analysis can be as **narrow** as looking at financial management, production efficiencies or employee management, or as **broad** as examining the total business versus your competition.

<p style="text-align: center;">STRENGTHS</p> <p>What strengths does your business have that make you competitive? What do you do better than anyone else? What do your customers see as your strengths?</p>	<p style="text-align: center;">WEAKNESSES</p> <p>What could you improve? How can you become more efficient? What little changes might make big impacts? What should you avoid? What do your competitors do better than you?</p>
<p style="text-align: center;">OPPORTUNITIES</p> <p>What are some trends in the industry? What opportunities are available? What is happening in your community that can be advantageous to your business?</p>	<p style="text-align: center;">THREATS</p> <p>What obstacles do you face? What is your competition doing? Do changes in technology threaten your business? Does your financial position threaten your business?</p>

Reading Resources:

Conducting a SWOT Analysis of Your Agricultural Business. <https://ohioline.osu.edu/factsheet/anr-42>

SWOT Analysis

SWOT TOPIC _____

S TRENGTHS	W EAKNESSES
O PPORTUNITIES	T HREATS

Reading Resources:

Conducting a SWOT Analysis of Your Agricultural Business

<https://ohioline.osu.edu/factsheet/anr-42>

SWOT Analysis

Think critically about your operation. List five **strengths** for each category

Financial	Labor Management	Facilities	Enterprise Mgmt	Personal

Think critically about your operation. List five **weaknesses** for each category

Financial	Labor Management	Facilities	Enterprise Mgmt	Personal

What is your cost of production per unit for the major commodity that you produce on your farm?

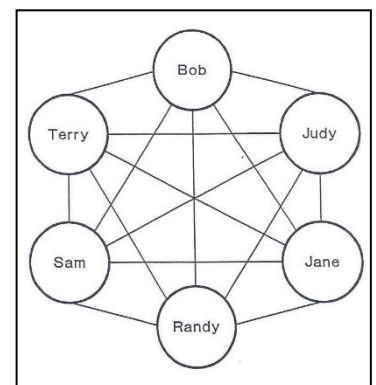
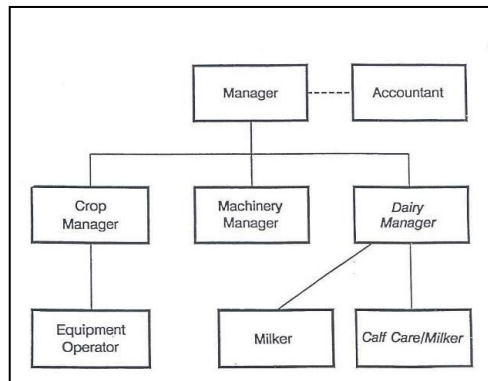
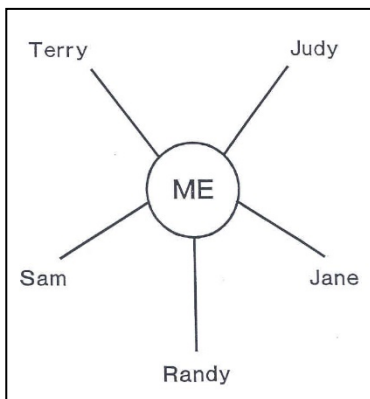
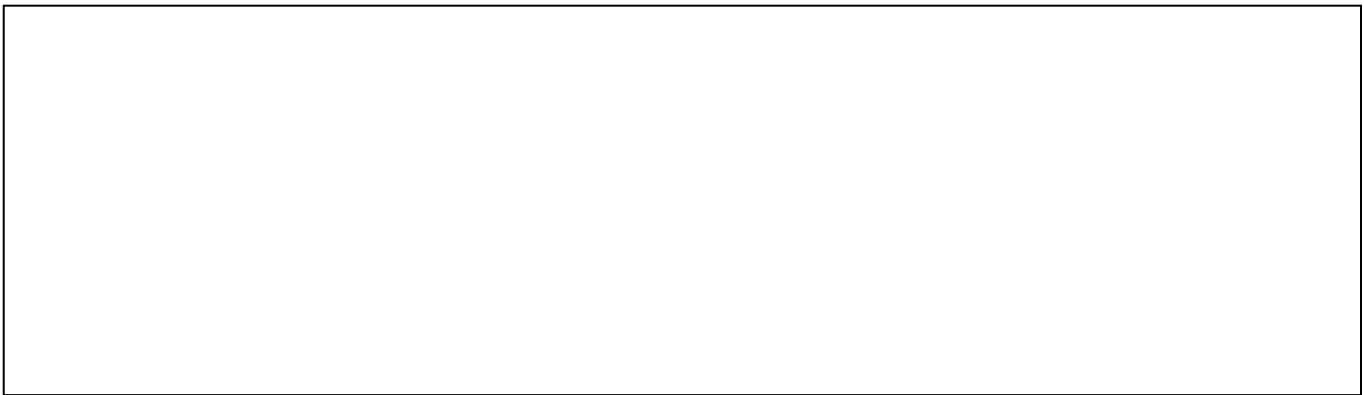
Organizational Structure

What does the current and future organization structure look like?

Draw a picture of your farm's **current** organizational structure:



Draw a picture of your farm's **future** organizational structure:



Analyzing Your Business Checklist

An analysis of the current state of the farm should be conducted to determine the available land, labor, capital, and management resources. This process looks at the who, what, where, and why of the business. Who works on the farm? What does the farm grow or raise? Where does the farm produce its commodities? Why does the farm exist? This analysis should determine the physical, fiscal and personnel status of the business. This analysis should also examine the operation's efficiency and identify any available resources that are not currently being utilized. The farm's profitability, business structure, operating procedures, and employee management should also be determined. It is also helpful for the management team to identify the external influences that could impact the business in the future. These influences could include any governmental, political, economic, environmental, social, or technological. Some of the tasks which farms can undertake include:

Task	Date Accomplished
Define Farm and Family Values & Goals	_____
Review Mission Statement	_____
Review Organizational Structure	_____
Review Operating Entity	_____
Have each member complete individual assessment	_____
Complete Farm Balance Sheet	_____
Compile Farm Financial Statements for past 5 years	_____
Compile Tax Returns for past 5 years	_____
Update Machinery, Building & Livestock Inventory	_____
Complete Assessment of Machinery, Building, & Livestock	_____
Review Risk Management/Insurance Coverages	_____
Review Human Resource/Employee Management	_____
Conduct SWOT of Each Farm Sector	_____
Review Existing Business, Retirement, Transition, Investment and Estate Plans	_____
Analyze Family Living Expenses for each partner or future partner	_____

Resources:

- Whole Farm Planning Model factsheet. Access at <https://ohioline.osu.edu/factsheet/anr-52>
- Develop a Mission Statement for Your Agricultural Business. Access at: go.osu.edu/farm succession
- Developing Goals for the Agricultural Business factsheet. Access at: <https://ohioline.osu.edu/factsheet/anr-45>
- Conducting Successful Family Business Transition Meetings factsheet. Access at: <https://ohioline.osu.edu/factsheet/anr-53>
- Farm Balance Sheet. Access at: <https://ohioline.osu.edu/factsheet/anr-64>

Farm Advisory Boards

Farm businesses may benefit from putting together a **Farm Advisory Board** which can provide feedback to your business. The advisory board can be a sounding board for the managers to help the business move forward. Some people who might serve as effective members of an advisory board could include your attorney, accountant, financial lender, Extension professional, tax professional or a retired farmer. The main reason to create an advisory board is to seek expertise outside of your farm.

Some people who would be good members for an *Advisory Board* for our farm are:

1. _____
2. _____
3. _____
4. _____
5. _____

Goals for the Future

Senior Generation: _____

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____

Farming Heir(s): _____

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____

Off-Farm Heir(s): _____

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____

“Questions for My Heirs” Worksheet #2

What are your goals for the farm?

What concerns do you have about the future of our farm?

What would you like to learn more about with regards to the farm?

Family Communication

The underlying success of any business arrangement depends on healthy family relationships. The primary reason many two-generation family business arrangements fail is because of poor family relations.

What are some barriers to effective communication on farms?

1. _____

2. _____

3. _____

4. _____

5. _____

Family Communication

The communication **STRENGTHS** that our family and family business have:

1. _____
2. _____
3. _____
4. _____
5. _____

The biggest communication **BARRIERS** that exist in our family and family business are:

1. _____
2. _____
3. _____
4. _____
5. _____

Stress!

The top 5 stressors for me with regards to my family and family business are:

1. _____
2. _____
3. _____
4. _____
5. _____



Crucial Family Conversations

Some of the crucial conversations that our family needs to have are:

Improving Family Communication

I can improve my communication by:

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____

Strategies our farm can implement to reduce our communication barriers are:

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____

Some strategies our farm business or I can implement to reduce stress are:

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____

Helping Your Family Stay a Family Worksheet

One of the hardest aspects of farm transition planning and estate planning is maintaining family relationships. Conflict is to be expected as all families have some sort of dysfunctionality. The key to helping your family is to identify the items which could impact effective family communication and to consider how you can reduce any potential conflicts. The following questions can help you identify some areas where attention may be needed.

The biggest communication barriers that exist in our family and family business are:

What are some things that might be causing stress in the family?

What are the elephants (those things which could cause the family to explode) in the room that my attorney will need to know about that could impact our farm succession and estate plans?



Some strategies that I can use to improve my communication and to reduce my stress are:

Some strategies our farm can implement to reduce our communication barriers are:

Family Business Meetings

A family business meeting is an opportunity for family members to come together on a regular basis to discuss issues of interest to those family members involved in, or who have an interest in, the business. These meetings are not for discussing which fields are to be planted today or which cows to breed, but rather to determine long-term plans for the operation and management of the business. Some families will hold these meetings as little as once or twice a year, while others choose to meet on a more regular basis.

Tentative Agenda for a Family Business Meeting

Call to Order
Minutes from Previous Meeting
Farm Financial Report
Old Business
New Business
Date of Next Meeting
Adjournment

The top 5 items I would like to discuss in our Family Business Meeting:

1. _____
2. _____
3. _____
4. _____
5. _____

Choosing the Successor for your Farm Business

My Potential Successors include: _____

One of the most crucial aspects of passing your farm to the next generation is the identification of the best successor. The successor could be a son, daughter, niece, nephew, in-law or non-family member. The following table can be used to compare potential candidates. Once a successor is identified, it is the responsibility of the senior generation to develop a plan to transition managerial control of the business to the chosen successor.

Potential Successors

Attributes/Abilities of Potential Successors		
Crop Production Management		
Livestock Management		
Financial Management		
Machinery & Equipment Repair		
Building Repair		
Employee Management		
Fiscal Management		
Marketing Abilities		
Risk Orientation & Level		
Related Experience		
Relevant Experience		
Commitment to Family		
Commitment to Farm		
Management Style		
Communication Ability		
Leadership Abilities		
Creativity		
Guts & Ambition		
Values Alignment		
Ability to Keep Current		
Other _____		
Other _____		
Total		
Suggested Scale: 1= Poor, 3= Fair, 5= Excellent		

Questions for the Next Manager Worksheet

The underlying success of any estate and farm transition plan depends on preparing the next generation to own and/or manage the family farm. What is the plan for preparing the next generation to lead the business in the future? Here are some questions you can ask the next generation as you plan.

What is your goal for the family farm if you had to take over the farm today? What would you be most the most concerned about?

What changes would you like to see be made in the business?

What are your weaknesses that need to be addressed? Training opportunities?

What is your expectation for an appropriate time for management control to be transferred?

Brainstorm some strategies which could be used to transition management from one generation to the next.

Tips for Developing Future Managers

The transition of management from one generation to the next should be a gradual transition. This transition period allows the future manager to determine if they really want to manage the business, as well as allowing the current manager to determine if the right person has been identified. Sometimes, the future manager decides to leave the farm instead of staying. This is a good argument for having a transition period. The transition can be accomplished gradually by relinquishing more and more responsibility and authority to the successor. 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 also allows the current manager to see that the farm does not fall apart without them. It is a good practice to schedule regular meetings to discuss the transfer and changing roles within the business.

Tips for Developing Future Managers

- Employment at another business before returning to the family business can be useful.
- Every family and non-family member who is part of the business should have a written job description. Include detailed responsibilities, specific roles and expectations, and who is in charge of what.
- Make a chart of all employees and how they relate to each other.
- Start a new family member in the business as an employee, not as the top manager.
- Develop job descriptions for each position on the farm and have the successor work through them all.
- Provide meaningful opportunities for decision-making as well as accepting responsibility.
- Wait before he/she can buy into the business or assume long-term responsibilities.
- 365 Day Challenge- Teach one skill per day.
- Opossum Approach- “Play” dead and see how they do!

Questions for the New Manager

- Are there additional responsibilities you think you should have or shouldn't have?
- Are there changes that need to be made for you to have a continuing interest in the business?
- What are your weaknesses that need to be addressed? Training opportunities?
- What is your expectation for an appropriate time for management control to be transferred?

Planning for the Unexpected

Unexpected Issues arise in every succession and estate plan. Identify how you will overcome the following unexpected events:

Death

Disability

Divorce

2nd/3rd Marriages

Long Term Care (Nursing Home) Expense

Medical Bills

Buying out a Partner's Share of Business

Unexpected Lawsuit

Global or Natural Disaster (pandemic, tornado, flood, fire)

Other Events

Reading Resources:

Is a Prenuptial Agreement Right for Your Farm Business factsheet. Access at:

<https://ohioline.osu.edu/factsheet/anr-51>

Planning for Retirement

I will need \$_____ each year to live in retirement for _____ years.

My sources of retirement income will be:

___ Farm Rental Payments

___ Retirement Accounts

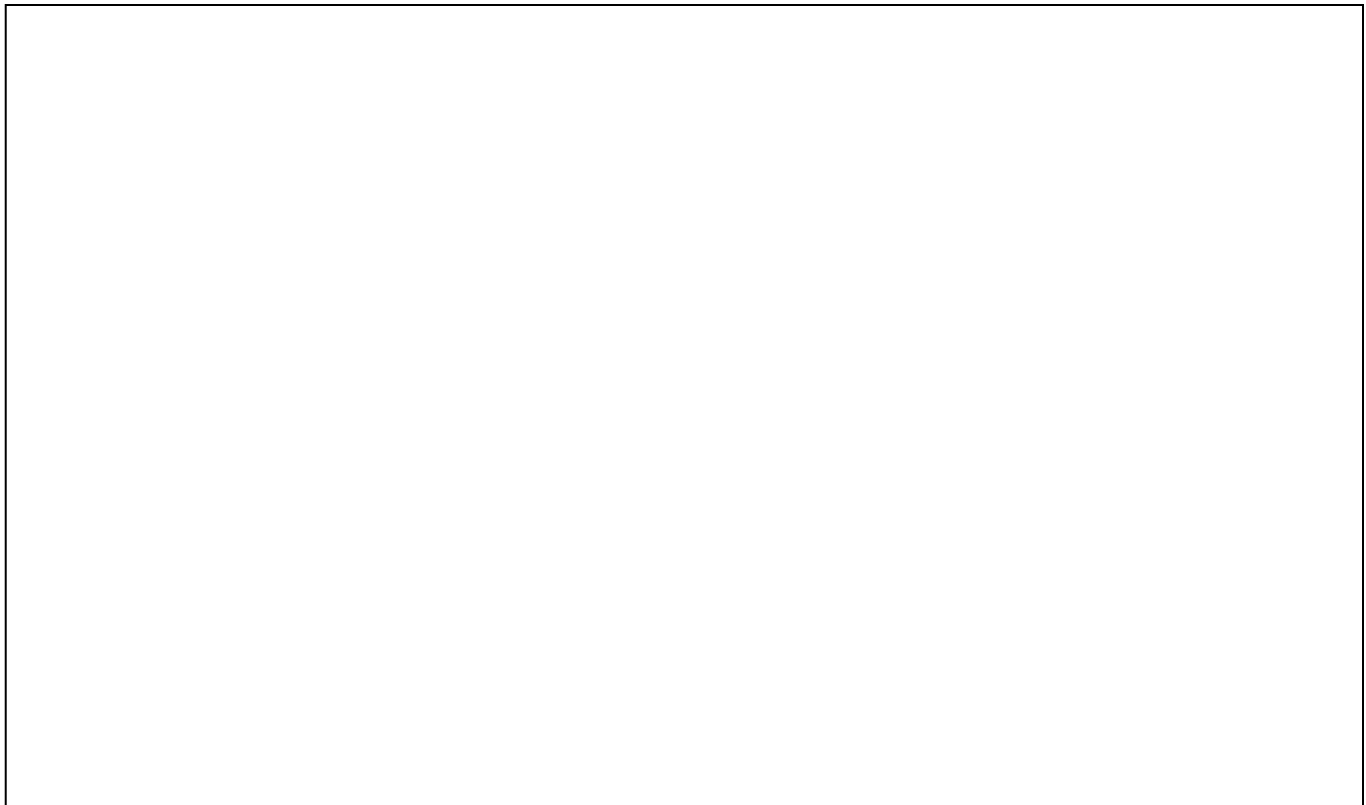
___ Social Security

___ Savings Accounts

___ Sale of Property

___ Other: _____

Draw a picture of your life in retirement.



Resource:

Planning for a Secure Retirement. Purdue University. Access at:

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

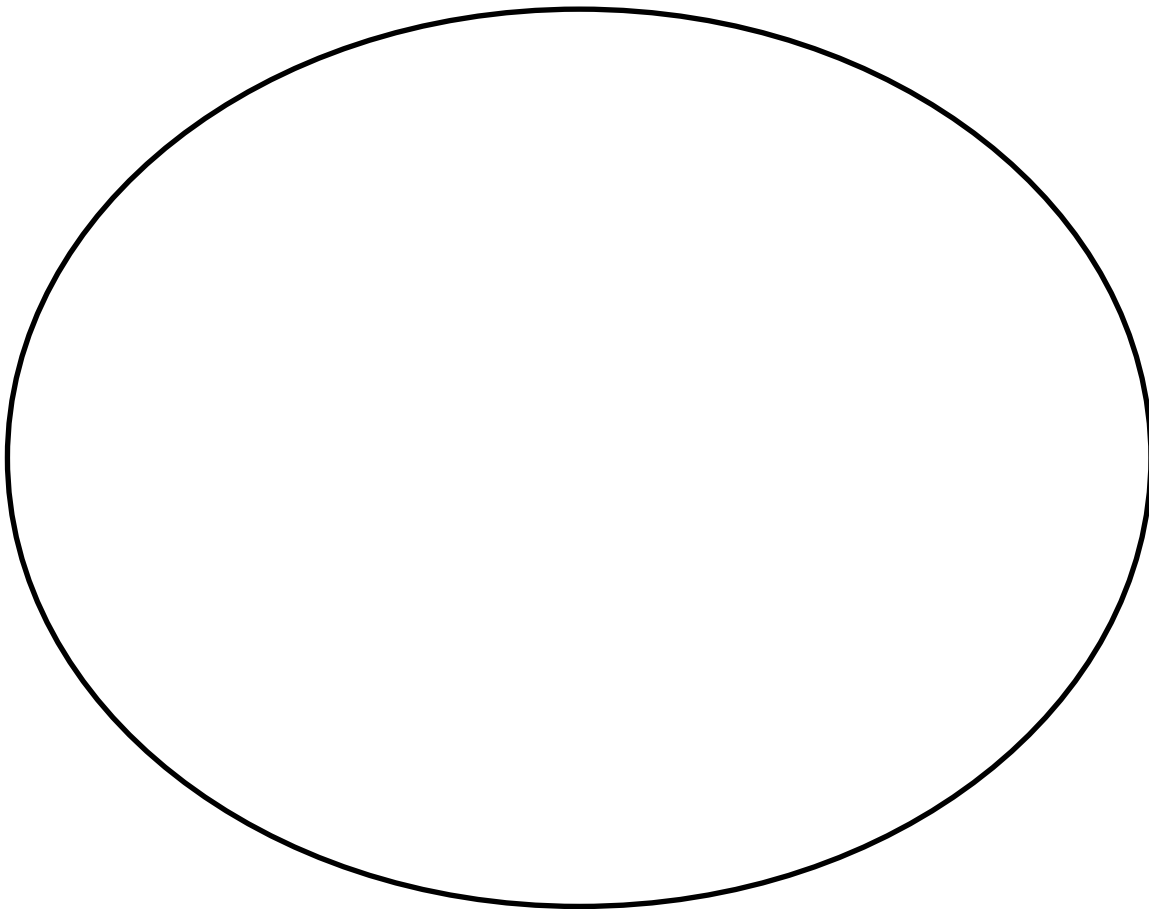


Fair vs Equal

Deciding what is “fair” versus “equal” when transferring farm and family assets to our heirs is often one of the most difficult questions. This often separates itself into two distinct questions:

- How will you divide the farm between your on-farm and off-farm heirs?
- How will you divide the personal assets between your heirs and other benefactors (church, community groups, friends)

One of the biggest obstacles that must be overcome is how can we design our farm transition plan so that it will be as fair as possible to the heir taking over the farm. And in this process of being fair, how can we treat everybody equally? Often times doing what is fair means the distribution of assets will not be equal. Defining what is fair and what comprises equal is different to each farm operation. This you must do yourselves – together as a family, as a team committed to one another and the future. Use this space to brainstorm on how this might look.



What Assets Will I Be Leaving My Heirs?

One of the first steps to the estate planning process is to develop a personal balance sheet of all your major assets and liabilities. To assist you with this process, complete the “**Getting Your Farm & Family Affairs in Order**” Document and/or **the Farm Asset & Resource Management Spreadsheet**.

Cash Assets:

--

Intermediate Assets Including Machinery:

--

Land:

--

Summary of Debts:

--

What will your heirs do?

Request each of your heirs to complete a written summary of what they would do if they were in charge of your estate. How would they divide the estate? Does anyone want the farm? What “prize” family heirlooms would they be grateful to receive from you? Give heirs a specific date to respond in writing to you.

What Would You do with the Family Farm?

We are in the process of developing a plan for the future of our farm and for the transfer of our estate. We are asking for your help in this process. We would like to know what you would do if you were in our shoes. What are your recommendations? Who should own the farm in the future? Who should get the machinery? Who should manage the farm? How should we divide the estate? What family heirlooms would you be grateful to receive? What ideas do you have about our process? Thanks for helping out!

Where does our Farm stand with its Planning?

Farm Business

- Have an up-to-date balance sheet
- Have an up-to-date asset inventory sheet
- Have selected a heir(s) for our operation
- Have a farm transition plan developed
- Hold farm business meetings
- Have a business structure which fits our operation (check current type of structure)
 - sole proprietorship
 - partnership
 - limited liability company
 - corporation

Senior Generation

- Have an up-to-date will and/or trust
- Have a power of attorney for assets
- Have a power of attorney for medical decisions
- Have a living will
- Have long term care insurance
- Have disability insurance

Succeeding Generation

- Have an up-to-date will and/or trust
- Have a power of attorney for assets
- Have a power of attorney for medical decisions
- Have a living will
- Have long term care insurance
- Have disability insurance



Example Transition Planning Checklist

Task	Target Date	Date Completed
<u>Compile 5 Most Important Items List</u>		
<u>Compile Bucket List</u>		
<u>Ask the Next Generation their Interest in Farm</u>		
<u>Calculate Family Living Expenses</u>		
<u>Hold Family Business Meeting #1</u>		
<u>Complete Balance Sheet for Farm</u>		
<u>Complete SWOT Analysis on Farm</u>		
<u>Hold Family Business Meeting #2</u>		
<u>Compare Farm Against Peers</u>		
<u>Complete Personal SWOT (individual)</u>		
<u>Complete Communication Barriers SWOT</u>		
<u>Hold Family Business Meeting #3</u>		
<u>Examine Retirement Portfolios of each Generation</u>		
<u>Hold Family Business Meeting #4</u>		
<u>Examine Risk Potential of Farm</u>		
<u>Hold Family Business Meeting #5</u>		
<u>Develop Written Transition Plan</u>		
<u>Develop List of Personal Data for Estate</u>		
<u>Develop Letter of Instruction for Estate</u>		
<u>Hold Family Business Meeting #6</u>		
<u>Meet with Estate Planning Professionals</u>		
<u>Develop Written Estate Plan</u>		
<u>Hold Family Business Meeting #7</u>		

Planning for the Future of Your Family Farm Checklist

Task Target Date Date Completed

Procrastination is not just avoiding a task. It is also avoiding the emotions that accompany an uncomfortable task.

The measure of one's character is not what they get from their ancestors but what they leave their descendants.

I still find the days too short for all the thoughts I want to think, all of the walks I want to take, all the books I want to read, and all the friends I want to see (J. Burrows).

