



Farm Agricultural Enterprise Succession: Farm Management Transition Workshop



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Course Preview

Introduction

Multiple assessments needed to measure and report learning for us and for funders

Family systems and alignment

Today's farm management

Retirement risks

Barlow Case Study

Homework assignments

Why you are here....

Anticipated future event:	
Senior generation members (SGM) cease daily operations/work	Mean = 8.75 yrs.; 5 – 15 yrs.
SGM cease making short-term, operational/tactical decisions	Mean = 8.75 yrs.; 5 – 15 yrs.
SGM cease making long-term, strategic decisions about the business	Mean = 10.75 yrs.; 5 – 15 yrs.
SGM move to another, “retirement” residence (on- or off-farm)	Mean = 12 yrs.; 12 yrs.
SGM consider themselves “fully retired” or “no longer active” in farm	Mean = 14 yrs.; 10 – 20 yrs.

Why you are here....

Steps in transition process:	1 = Not Confident 5= Very Confident
Management functions of your business and who will be responsible at various stages of transition	Mean = 2.6
Future ownership and organizational form of business	Mean = 2.4
Ability to communicate about succession issues with family and business members	Mean = 2.8
Amount of income each generation will need from the business and other sources after succession	Mean = 2.4
Professional development needs of successors	Mean = 2.4
Resources available to support retirement planning	Mean = 3
Time frame for succession transfer steps	Mean = 2

A Different Kind of Workshop

Confidentiality

Families have productive work they can do themselves
before a consulting engagement

Families are resilient and capable

Designed to be experience rich to help families experience
the tools as a team

Family Systems Background

Genogram Assignment

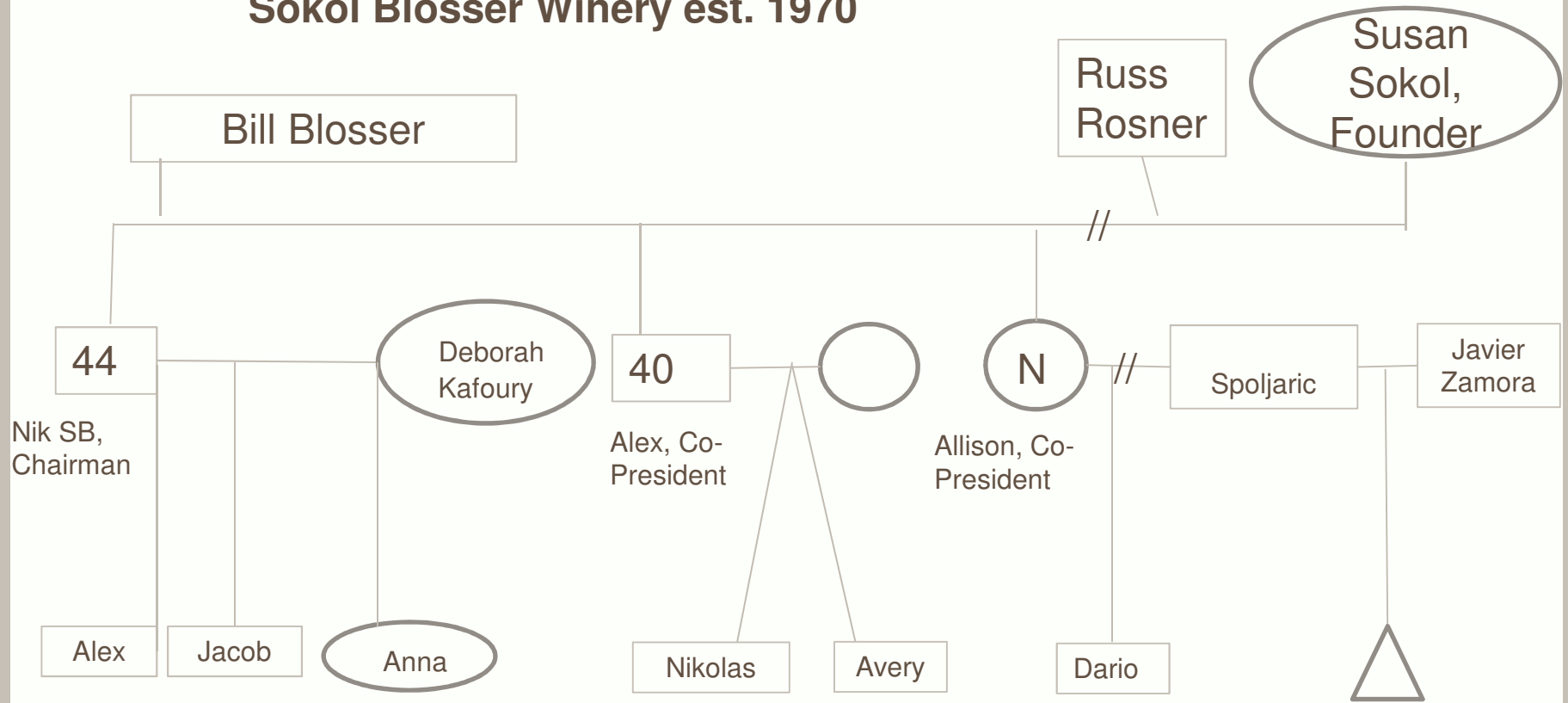
Three generations beginning with your generation

Include ages, positions in the business

Sokol Blosser Winery

https://media.oregonstate.edu/media/2011+Sokol+Blosser+Winery+EFBA+Director%27s+Award/0_dtmyvjws

Sokol Blosser Winery est. 1970



Stewardship of an Entrusted Family Business

(Learning Family Business: Pathways and Paradoxes. Moores and Barrett, 2002)



Self management
People skills
Technical knowledge
Outside experience

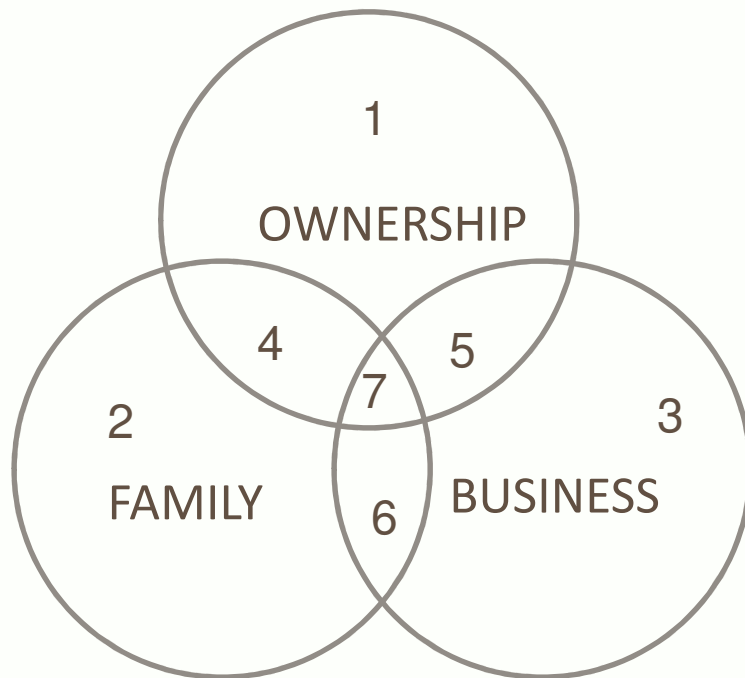
Company values
Key employees
Market positions
Customers

Strategy
Governance

Succession planning
Leadership development

One View of the Complexity: The Family Business System

(Renato Tagiuri and John Davis, 1996, Family Business Review, Vol. IX, No. 2)



“Every individual who is a member of the family business system has one location, and only one location, in the model.”

“The most critical issues facing business-owning families are family-based issues more than they are business-based issues.”
Perpetuating the Family Business,
John Ward, 2004.

Family Meeting Basics

Family Meeting Worksheet

You are in charge of setting up a family meeting in your family business and need to determine the following aspects of the meeting:

Agenda of items for discussion

Logistics of meeting such as location, date, and length of meeting

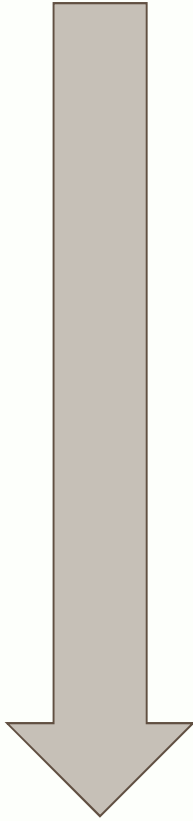
Family Meeting Description

- Family meetings are held in a neutral place
- Follow a prepared agenda
- Family meetings may or may not be used for decision making but provide information about the family to the decision-makers
- Family meetings are best when they focus on the future
- Family meetings build family unity

Family Meeting Preparation

- Determine invitation list
- Do not start if there is serious conflict
- Start small, with direct descendants, and then invite spouses and children over 16
- Determine the meeting rules that you want to follow
- Level of confidentiality
- Format for hearing all views
- Meeting opening (eg. Set next meeting, round the table check in)
- Meeting closing (eg. Highlights distribution, next meeting agenda)

What would we talk about?



Plans for the holidays and vacations

Personal and professional accomplishments and educational goals

Family philanthropy

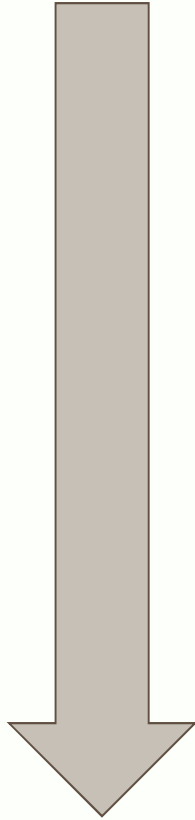
Century Farm application process of Family History

Development of family policies; e.g. employment

State of the business

Development of family mission statement

What would we talk about to move our management transition decisions forward?



Complete the Genogram

Share the Family Enterprise Scale

Share the transition process with the family

Identify other types of education that the transition team wants

Why do family businesses hold family meetings?

- Update family members not active in the business about the state of the business
- Are an opportunity for good communication
- Educate family members about the difference between ownership, management and family membership
- Engage family members in responsible ownership
- Update family members on the estate plan and educate them on the management of inherited wealth
- A time for problem solving and preventing conflicts before they emerge
- A forum for celebration and introspection
- A safe-harbor for planning the family's future involvement in the business

Family Enterprise Scale

tiestotheand.org/sites/tttl/files/articles/Ties_to_The_Land_Article_1-Asset_or_Heirloom.pdf



1	2	3	4	5	6	7	8	9	10

My property is one of the financial assets in my portfolio and nothing more.



My property is a priceless family heirloom to be protected at all costs.

The logo for 'The Newlywed Game' is displayed on a purple rectangular background. The text 'The Newlywed Game' is written in a yellow, cursive script font. The word 'The' is smaller and positioned above 'Newlywed', which is above 'Game'.

The Newlywed Game

- A member from each generation of the family business will privately answer secret questions to guess the other generation's response.
- A member of the other generation will answer the question
- Matching answers will score points

The Generation Game

- Current Manager answers what the next generation will answer:
 - My successor's favorite holiday?
 - My successor's biggest challenge going forward in the business?
- Future Manager answers what the current generation will answer:
 - My parent's favorite place on the farm or ranch?
 - My parent's most trusted advisor?

Farm Management Functions & Management Decision Making Roles

Bart Eleveld

Extension Economist

Farm Business Management

What is (farm) business management?

- It is the decision-making process aimed at meeting the vision, mission and goals of the business.
 - All ***decisions made*** by management are focused on the efficient allocation of the factors of production — land, labor, capital and management.
<http://www.noble.org/ag/economics/mgtfunctions/>
 - Family labor, ownership and management are often conflated in a family business

Functions of management

- Planning (aka strategic planning)
 - Setting goals and objectives
 - Gathering data
 - Defining alternatives
- Implementation
 - Selecting (deciding on) and operationalizing the chosen alternative; setting into motion
- Control
 - Monitoring performance and making adjustments

Ownership entitles management

- Whoever owns the resources, has right to keep *or delegate* management authority
- Orderly transition may begin with delegating management authority before, or during ownership transfer.
- Senior generation may retain ownership and some decision-making authority or oversight well into retirement.
- Ownership may be shared with non-managing family members who may exercise some decision-making oversight or authority by being on a “board of directors”.

In retirement/transition, management functions must ultimately be transferred from one generation to next. Death or total disability, of course, is the final enforcer.

- Do you want to let random chance determine the transfer of decision-making authority?
- By training successor and gradually delegating authority, you have some measure of control, even after the inevitable.

Simpler definition of management:

- Making decisions and accepting the rewards or consequences of those decisions
 - Labor is paid a wage based on time spent or jobs performed.
 - Usually a wage is not determined by outcomes although incentive systems may be employed
 - Management is rewarded by reaping profits or accepting losses.
 - Can include a base reward plus profit/loss sharing if management is “hired”.
 - When management and ownership is combined, as in many family farms, change in net worth is the ultimate reward.

In management transition, it's helpful to identify or categorize decisions

- Try to differentiate decision making from labor (which could be replaced by a wage-paid employee)
- Array the decisions from short-term or tactical, to the long-term or strategic. Alternatively, you can rank by importance.
- Put them in a matrix and:
 - Determine how they are currently split between generations
 - Form a timetable or plan for when the incoming generation will assume responsibility
 - Formulate a plan for training or educating successor to prepare them for assuming greater responsibility

Iowa Farmer's Business Transfer Plan

www.extension.iastate.edu/bfc/sites/www.extension.iastate.edu/files/bfc/Farm%20Business%20Transfer%20Plan.pdf

Rank order of managerial authority retained by the owner/operator

Decision	Iowa 2006	Australia 2004	Virginia 2001	Japan 2001	Ontario 1997	Quebec 1997	England 1997
Decides when to pay bills	1	1	1	2	1	1	1
Identify sources & negotiate loans & finances	2	2	2	1	2	2	2
Negotiate sales of crops/ livestock	3	7=	4	6=	3	3	3
Decide when to sell crops/ livestock	4	6	5=	6=	4	5	4
Level of inputs used	5	8	3	5	11	6	13

Rank order of managerial authority retained by the owner/operator

Decision	Iowa 2006	Australia 2004	Virginia 2001	Japan 2001	Ontario 1997	Quebec 1997	England 1997
Decide & plan capital projects	6	4	7	9	5	8	5
Negotiate purchase of machines & equipment	7	5	8	12	6	9	8
Plan day-to-day work	8	9	12	3	12	11	9
Decide work method/way jobs are done	9	12	13	10	13	13	12

Rank order of managerial authority retained by the owner/operator

Decision	Iowa 2006	Australia 2004	Virginia 2001	Japan 2001	Ontario 1997	Quebec 1997	England 1997
Decide long term balance & type of enterprises	10=	3	5=	11	7	10	6
Decide timing of operations activities	10=	10	10=	8	9	7	10
Decide type & make of machines and equipment	10=	11	10=	13	10	12	11
Make annual crop/livestock plans	11	7=	9	4	8	4	7

Identify management functions on your farm

Your selections (if given in enrollment questionnaire)	Decision or action
	Example task
	WHEN to do daily tasks/chores
	HOW to do daily tasks/chores
	Which type or brand, and how much farm input (fertilizer, chemical, feed, etc.) to use
	When to do major production steps (like planting, harvesting, move livestock, branding, etc)
	Negotiate sales of crops/livestock
	When, where or how to sell crops/livestock
	Keep/maintain physical production records, business records or financial records
	Supervise or oversee employees
	Make annual crop/livestock plan; what to produce this year
	When to pay bills, whom to pay first
	Recruit, hire, fire or lay off employees
	Select and negotiate purchase or rental of machines & equipment
	Identify sources and negotiate loans or outside investors
	Plan and select new enterprise investment projects (new crops, livestock activities, non- or off-farm business enterprises)
	Your own task (specify):
	Your own task (specify):

Tactical →

← Strategic

Additional Management Functions

- Specify short and long term goals of the farm/ranch
- How to incorporate family members into management decisions

Retirement Planning & Case Study

What we Know About Farming Family Businesses

- Principal farm operator average age is 59.6 years
- For every family farm owner up to 44 years of age there are 3 owners 65 years of age
- High rate of family ownership
- Over 1,100 Century Farms and Ranches recognized to date
- Highly diverse agricultural sector
- Unprecedented, challenges in the business environment
 - “The speed of change will never be slower than today.”



Why the high level of concern for older owners?

1. Reduced Business Value

- Most capable younger family members leave for other opportunities
- Higher transition risk when key information is kept “in the owner’s head”
- Reduced risk taking and reinvestment by current owner to protect retirement income



Why the high level of concern for older farm owners?

2. Economic Development Risks
 - Rural area employment
 - Civic leadership
 - Philanthropic leadership
 - Agriculturally productive land



Conflict in Family Business

- Potential for discord is greater;
 - Sibling rivalry
 - Children's desire to differentiate from parents
 - Marital discord
 - Identity conflict
 - Ownership dispersion among family
- Interactions become increasingly complex overtime as number of generations involved increases
- Benefits of conflict
 - Increasing options
 - Preventing premature consensus
 - Increasing involvement and motivation of family firm members

Challenges in Transition Planning

<http://gov.mb.ca/agriculture/business-and-economics/transition-planning/transition-planning-guide.html>

Lack of
Awareness

Accountability

Fair and Equal

Communication

Getting Started

Selfishness vs
Selflessness

Active and Non-
Active Children

Management

Planning Drift

Estate Plan Gaps

Entitlement

Tax Planning

Avoidance/denial

Goals and Values

Successor Skill
Sets

Risk

Non Wanting or
Willing to Commit

Fears

Compensation

Process
Facilitation

“Retirement” is a catalyst for succession

- Usually define retirement as the gradual or total withdrawal of labor and management from the family business. Labor and management may not be withdrawn at the same time or pace. This is what we’re calling “succession planning” or “business transition”.
- Ownership transfer is often quite separate from retirement. That is “estate planning”.

Farm Income and Cash Flow

Item	Ray keeps working	Ray retires
Gross farm income	\$ 459,726	\$ 459,726
- Total cash expenses	319,595	309,304
= Net cash farm income	140,131	150,422
- Depreciation	59,375	59,375
= Net Farm income	80,756	91,047
Net cash farm income	140,131	150,422
+ Non farm income:		
Reba's SS	20,000	20,000
Reba's Pension	15,000	15,000
Ray's SS		15,000
+ Farm interest paid	46,447	46,155
- Family living draw (incl SS and pensions)	60,000	110,000
- Income and SS tax	10,204	16,371
= Cash available for term debt and reinvestment	151,374	120,206
- Scheduled (term) debt service and operating loan interest	84,322	84,030
= Cash available after debt service	\$ 67,052	\$ 36,176
Annual replacement investment	59,375	59,375
- Ongoing replacement (Intermediate debt principal)	18,517	18,517
= Cash needed for replacement	40,858	40,858
Cash surplus (deficit)	26,194	(4,682)

Ray Jr. salary now owner draw but Ray's labor needs replaced

Ray starts SS

Ray Jr. becomes an owner

Replacement = depreciation
For simplicity

Household budgets

- Are income sources during retirement sufficient for retiring family's needs?
 - Are income sources during retirement sufficient for retiring family's needs?
 - How much is needed from the ongoing budget of the farm?
 - For incoming generation, are farm income sources sufficient to meet incoming family needs + retiring generation's income deficit + ongoing reinvestment in farm capital?
 - Does the farm need to be expanded to increase income?
 - Do additional non-farm income sources need to be developed?

Project Ray & Reba's post retirement income and expenses

- Housing
 - No longer principal operator so housing expenses (utilities, repairs) can't be business expenses
 - Move off farm? Rent or mortgage
- Food and household, clothing & personal care
 - Children already gone from household. Change?
- Transportation
 - No longer business expense, need covered on household budget
 - New car for retirement travel?
- Entertainment/Recreation
 - Where's the "retirement"?
 - Retirement travel

Project Ray & Reba's post retirement income and expenses – cont'd

- Insurance
 - Life insurance. Needed for estate planning? Can business pay?
 - Long-term care insurance?
 - Medicaid requires spend-down of assets
 - Liability (umbrella)?
 - Are they still owners? Protection of assets.
- Medical Insurance
 - Private to Medicare
 - Copays increase as they age
 - Prescriptions increase as they age

Project Ray Jr.'s post transition family income and expenses

- Start with Ray Sr.'s budget
- Housing: let's assume he moves into big house
- Food & household: 4 or 5 hungry mouths to feed
- Clothing and personal: larger and growing family
- Transportation: separate from business

Ray Jr.'s budget (cont'd)

- Medical costs
- Other Insurance:
 - Probably needs more life insurance to protect young family
 - Business protection would be business expense
- Entertainment / Recreation:
 - Younger generation typically expects more
- Debt repayment:
 - Personal only

Take away:

- The case study is a simplistic example. We'll ask you next time how you came out.
- This is work that all parties to the succession need to do. It guides:
 - How much needs to come out of the business budget to take care of elders?
 - How does the business need to adjust to serve successors? Or do they need other income sources?

End of First Workshop Review

Understand the family farm system

Forum for the family conversation

Identify the management responsibilities

Understand the household budget changes with retirement



Preview of Second Workshop

Learn from the genogram

Focus on management responsibilities

Determine a retirement income strategy for the Barlows

Understand business structures that support transition

Determine your farm readiness for retirement to set timelines



Second Session Preview

Introduction

Family Genogram and Family Meeting Debrief

Fair vs. Equal

Management Functions and Successor Readiness

Retirement Case Study Debrief

Financial Advisor Discussion: Retirement Expense Planning

Retirement and Transition Readiness Activity

Business Structures to Support Transition

Planning Your Next Steps

Genogram and Family Meeting Debrief

Genogram Review



Which family farm has the largest extended family?

Did you learn anything new about the history of your farm?

Which generation has experienced the deepest challenge to the success of the business?

How did they overcome that challenge?

Family Meeting Homework Assignment

How was the family meeting experience?

Describe the meeting?

Who attended?

Were there any ground rules established?

Did you accomplish what your needed to?

Is there a framework of trust you can build on?

Will you be able to lay the groundwork for an ongoing dialogue?

When is your next family meeting scheduled?

“Fair vs. Equal” Excerpts from AFBP Audio Podcast

<http://business.oregonstate.edu/familybusinessonline/podcasts>

- Equal is the same in value or amount
- Fair is “free from prejudice”
- No standard formula but is accepted by all parties
- Fair considers a vast number of variables – every family has their own definition
- Fair is a college education for every child
- But it’s not equal if one child enrolls at Oregon State and one child enrolls at Stanford



Considerations of Fair

- Not just one portion of the asset but the overall picture
 1. Inventory your assets for your estate plan
 2. Determine your goals with the assets
- 3 children and parents have provided a house for each child
 - One child has a second house
 - One child gets the family vacation home at mother's passing
 - Third child wants a second house - but her original house has a value that is 4 times her siblings
- Sibling with one house thinks this is unfair

Considerations of Fair

- What does the family believe is fair?
- Have you engaged in the conversation?
- Can your family have difficult conversations with each other?
- Does your family have a written or unwritten conflict resolution process? Or do you need a facilitator?
- Before the plan is put in place discuss the plan to give the children the opportunity to talk with you

Considerations of Equal

- Be sure children want to be tied to the business & to each other
- Use life insurance to fund bequest to inactive children
 - Determine an appropriate amount
- Confirm that an asset is a nonbusiness asset
- The operating business transferred to the active child separated from the real estate transferred to the nonactive child
 - The business pays rent to the real estate
 - Put their children in a debtor creditor relationship
 - Include a long term lease in place with provisions for renewal and fair market value increases over time.
 - Provisions for operating business to purchase real estate with a method for determining fair market value.

Successor Readiness



Sherri Noxel, PhD.

Director, Austin Family Business Program

Oregon State University

Successor Readiness

- Management transition timeline worksheet
- Facilitate the transition
 - What can seniors do to facilitate learning?
 - What can juniors do to prepare?
- Dealing with conflict
 - Written agreements
 - Check Ins
 - Hiring an Advisor
 - Oregon Farm Mediation

All family members give their perceptions of current allocation

Decision or action	Planned Share:			
	In 1 (one) year	In 5 (five) years	In 10 (ten) years	Key resources needed
Example task	Senior Alone	Equally Shared	Successor Alone	
WHEN to do daily tasks/chores				
HOW to do daily tasks/chores				
Which type or brand, and how much farm input (fertilizer, chemical, feed, etc.) to use				
When to do major production steps (like planting, harvesting, move livestock, branding, etc)				
Negotiate sales of crops/livestock				
When, where or how to sell crops/livestock				
Keep/maintain physical production records, business records or financial records				
Supervise or oversee employees				
Make annual crop/livestock plan; what to produce this year				
When to pay bills, whom to pay first				
Recruit, hire, fire or lay off employees				
Select and negotiate purchase or rental of machines & equipment				
Identify sources and negotiate loans or outside investors				
Plan and select new enterprise investment projects (new crops, livestock activities, non- or off-farm business enterprises)				
Your own task (specify):				

Management Transition

Consider the functions that will be
Successor Alone in 1 and 5 years:

Seniors – What must the successor generation do to develop
as effective managers?

What can you do to facilitate their preparation?

Juniors – What must you do to develop
as effective managers?

What can senior generation do to help you prepare?

Partnership Promises

We communicate in a timely responsive manner that suits the other person.

We complete communication within 24 hours.

Everything gets resolved in communication.

We are a team; related and in relationship.

We are supportive & willing to be supported.

We are coachable and willing to be trained.

We are champions to prevent triangulation.

We clearly identify our expectations of each other.

We hold each other accountable.

We tell the truth and are candid with each other.

We promise to slow down and sort out our thoughts.

We promise to make every attempt to be in their shoes and ask questions when we communicate.

Interviewing and Hiring an Advisor

- 1. Training and experience.
 - Does the consultant have an advanced degree in at least one professional discipline related to family businesses?
 - How long has the person been doing this kind of work?
 - Does the person's background suggest he or she looks at business and family issues as a whole?
- 2. Conflicts of interest.
 - Does the person have other sources of income besides what he or she receives from clients?
 - Is he or she selling a product as well as consulting?

Interviewing and Hiring an Advisor

3. Results.

- How long will the consulting process take, and how will successful outcomes be defined and measured?
- What is the consultant's failure rate?

4. Fees.

- How will the consultant bill—by the day, the hour, a fixed fee, an agreed-upon schedule of phased fees?
- Will “the meter” be on only during sessions with the client, or at other times, too, for example, when advice is given over the phone.

How to Hire an Advisor

5. Neutrality.

- Who is considered the client?
- The business, the owner, the family members?
- How will the person go about gaining the commitment to the process of all the key players?
- Does consultant work with other family or friends. Will that be a problem?

6. Personal qualities.

- Does the person relate well to all generations and both genders?
- Does his or her behavior in the initial sessions show an ability to create a comfortable, secure atmosphere in which family members can talk freely and candidly?

How to Hire an Advisor

7. Industry knowledge.

- Does the person either have some experience in the client's industry or demonstrate an ability to quickly digest what he or she needs to know?
- Do they support educational opportunities such as written articles and industry presentations?

8. Values.

- Are the person's cultural values as well as other interests similar enough to those of the family to permit a comfortable and harmonious relationship?

How to Hire an Advisor

9. Other advisors.

- How will the consultant relate to the family's other advisors?
- What types of other experts—strategic planners, bankers, valuation specialists—might be needed to assist the consulting process?

10. Structures.

- After the consulting is over, will there be mechanisms in place—an outside board, family council, retreats—that will enable the family to resolve difficult issues by themselves?

Oregon Farm Mediation Program

- Subsidized by the USDA to provide a low cost (\$30 per hour) fee
- Family business and transition concerns are eligible for mediation
- Application through Oregon Department of Agriculture Complaints and Agricultural Disputes
- Six Rivers Dispute Resolution Center in Hood River is the contracted firm
- www.6rivers.org

Understanding Farm Resources to Support Retirement



Bart Eleveld, PhD.

Extension Economist, Farm Business Management
Applied Economics Department (was AREc)

It's a question of balance

Farm and non-farm income vs. family expenses

Both retiring and successor generations

Farm assets that can be converted to income for retiring generation

Provide ongoing income to seniors without overly stressing cash flow of ongoing business

Beginning point is to know “Where Am I Now?”

Balance Sheet

Liquidity: ability to pay obligations in timely manner

Solvency: ability to cover **all debts** with value of assets

Income Statement and Cash Flow

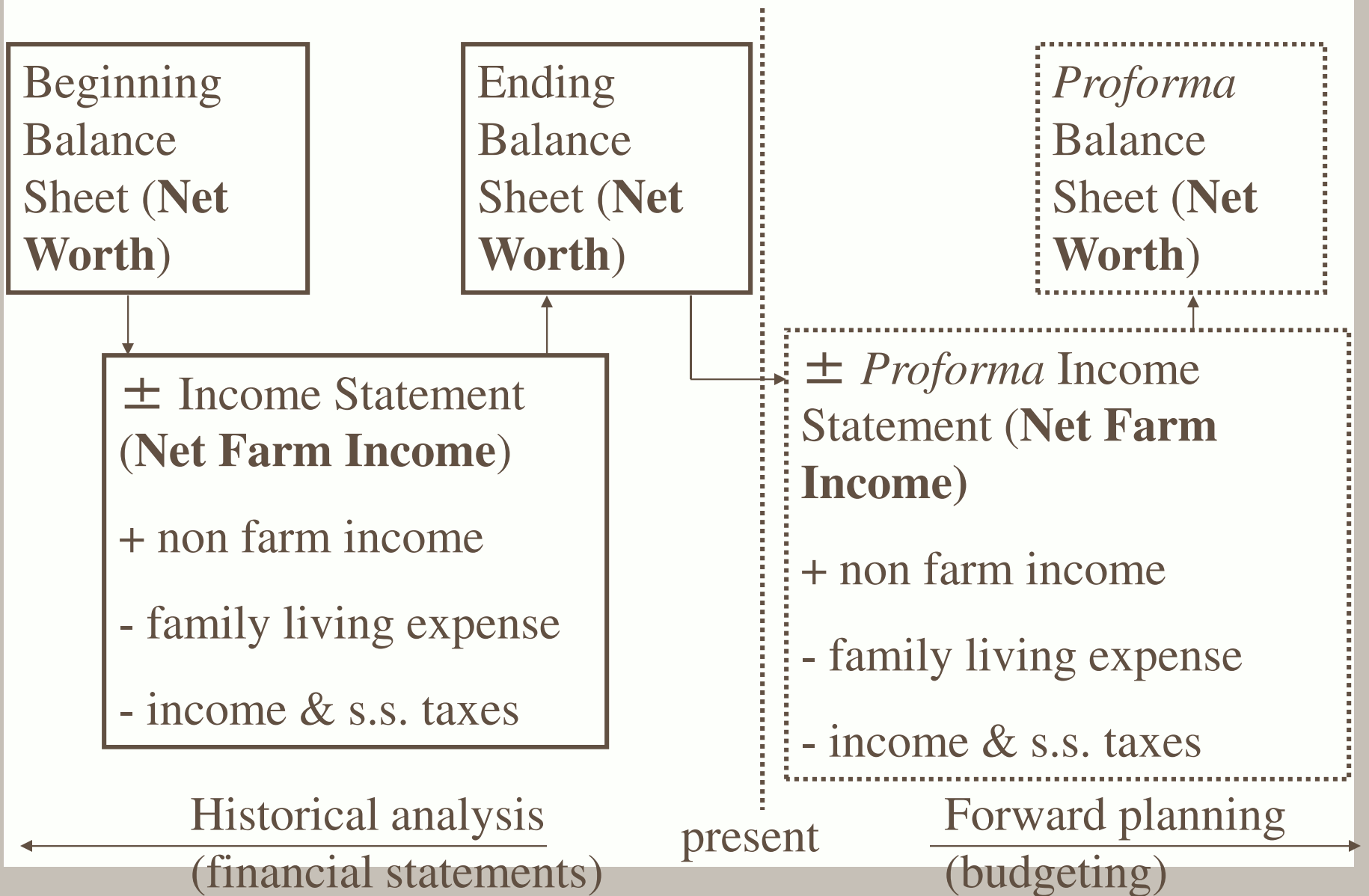
Profitability (Income > Expenses)

Cash Flow (Term Debt Repayment and Reinvestment)

Combination of statements

Efficiency (Is profit great enough **relative** to assets or expenses)

Relationship of statements



Income statement is key

- Net Farm Income (or profit) = gross sales
 - cash expenses – depreciation
 - NFI has to “feed” the family(ies), pay the income taxes and support ongoing (re)investment
 - Balance of incomes vs. withdrawals determines whether equity grows or declines

Seems simple but there are complications:

Multiple entities created for **tax management** or **estate planning** can “confuse” the overall profitability calculations

Is family labor a paid expense or a manager’s residual?

Sole proprietorship/partnership vs. LLC/corporation

Cash vs. accrual accounting

If you use cash accounting and rely on Schedule 1040F for net income, you may not know “true” profits unless you make accrual adjustments on an Income Statement (P & L)

May need special analysis from your accountant that differs from their normal, tax-oriented accounting services.

Examples of Accrual Adjustments

Differences between beginning and ending values of current assets and/or liability accounts:

Item	Begin	End	Difference	Taxable Over or Under Estimate of NFI
Crop inventory	\$50,000	\$30,000	+ \$20,000 revenue	+
Supply inventory	\$50,000	\$30,000	- \$20,000 expenses	+
Acct. Payable	\$50,000	\$30,000	+ \$20,000 expenses	-

Financial Ratios from Case Study (Calculated by FINPACK)

Liquidity:

Current debt/current assets = 1.39 or 139%

trouble sign but not necessarily fatal

Solvency:

Total debt/total assets = .36 or 36%

creditors not nervous for now

Financial Ratios from Case Study (continued)

Profitability:

Net farm income = \$91,047

positive number but is it enough?

RROA = 3.6% on all assets

RROE = 2.7% on owners' claim

Cash Flow:

Term debt coverage ratio = 1.51 or 151%

Replacement coverage ratio = 0.96 or 96% *if you include replacement reinvestment*

Example:
M&M
retirement

Item	Ray retires
Gross farm income	\$ 459,726
- Total cash expenses *	309,304
= Net cash farm income	150,422
- Depreciation	59,375
= Net Farm income (profit)	91,047
Net cash farm income	150,422
+ Non farm income:*	
Reba's SS	20,000
Reba's Pension	15,000
Ray's SS	15,000
+ Farm interest paid	46,155
- Family living draw (incl SS and pensions)	110,000
- Income and SS tax	16,371
= Cash available for term debt and reinvestment	120,206
- Scheduled (term) debt service and operating loan interest	84,030
= Cash available after debt service	\$ 36,176
Annual replacement investment	59,375
- Ongoing replacement (Intermediate debt principal)	18,517
= Cash needed for replacement	40,858
Cash surplus (deficit)	(4,682)

* If family labor is deducted as a positive cash flow

be added back in as

How will family expenses change in retirement?

Senior Generation Retirement Needs

- Housing
 - No longer principal operator so housing expenses (utilities, repairs) can't be business expenses
 - Move off farm? Rent or mortgage
- Food and household, clothing & personal care
 - Children already gone from household. Change?
- Transportation
 - No longer business expense, need covered on household budget
 - New car for retirement travel?
- Insurance
 - Life insurance. Needed for estate planning? Can business pay?
 - Long-term care insurance?
 - Medicaid requires spend-down of assets
 - Liability (umbrella)?
 - Are they still owners? Protection of assets.
- Medical Costs and Insurance
 - Private to Medicare
 - Copays increase as they age
 - Prescriptions increase as they age
- Entertainment/Recreation
 - Where's the "retirement"?
 - Retirement travel
- Taxes

Expenses	Specific Item	Current Expenses	Retirement Expenses
Housing:	Mortgage Payment / Rent		-
	Utilities		2,000
	Home Maintenance		-
	Property Insurance		-
	Property Taxes		-
	Association Fees		-
	Home Furnishings	1,200	1,200
	Seasonal Expenses (snow, pool?)		-
Food and Household:	Groceries	5,200	5,200
	Household Supplies	1,200	1,200
Clothing and Personal Care:	Clothing Purchases	1,000	1,000
	Dry Cleaning / Laundry		-
Transportation:	Salon/ Personal Care	600	600
	Car Payments		-
	Car Insurance		-
	Fuel/Repairs/Parking		-
Other Insurance:	Public Transportation		3,000
	Life	500	-
	Liability (Umbrella)		-
Medical Expenses:	Long-Term Care		12,000
	Health Insurance	6,000	3,000
	Medicare		-
	Deductibles / Unreimbursed Expenses	2,500	3,750
	Prescriptions / Vitamins	2,000	3,000
Entertainment/Recreation:	Vacation and Travel	2,500	5,000
	Holidays	1,000	2,000

Even though income is reduced, expenses overcompensate in the Barlow example

Really need to run these figures for your own retirement plan

Income		Current Income	Retirement Income
Earned Income from business:	Husband	25,000	-
	Wife		
Retirement Plan / IRA Distributions:	Husband		-
	Wife	20,000	20,000
Social Security Benefits:	Husband		15,000
	Wife	15,000	15,000
Rent Income:			
Interest Income:			
Dividend Income:			
Other Earned Income:			
Other Cash Receipts:	Sale of Assets		
	Alimony/Child Support		
	Trust Distributions		
	Other		
Total Income		\$60,000	\$50,000
Summary		Current	Retirement
Projected Income:		60,000	50,000
Projected Expenses:		48,900	60,650
Difference:		\$11,100	(\$10,650)



Case study shows income under pressure in Barlow's retirement

Expand the farm?

Intensify?

Seek outside income?

Turn assets to income?

Rental of assets to next gen

Installment sales contract (interest income)

Share rental of real estate

Share rental of livestock with or without diminishing interest (next gen gradually replaces breeding herd)

Conservation easement/trusts

Charitable remainder trusts

Next gen income pressures

Expand/intensify the business after succession

Spin-off businesses under successor's control

Non/off farm income?

Successors

Successor's family members

Look at controlling family living expenses?

Current gen may have higher expectations than founder generation

Retirement Expense Planning



Inga Chira, Assistant Professor
Oregon State University, College of Business

Will I Ever Retire?

Yes, you will. It just depends when and how

Successful retirement=having a plan

(1) Time

1. How old are you today?
2. When would you like to retire?
3. How long will you live?

Draw a time line.

But how much money do you really need?

Calculators assume a replacement rate of 80% of your current income.

How realistic is this?

Always over estimate

Once we know how much we need, where is the money going to come from and how exactly to save for that?

How much do you have now? (and how much should you have?)

for example if I am 35 and making \$60,000/year, a good benchmark would be about \$100,000

Age	Investment assets/gross pay
25	0.20:1
30	0.6-0.8:1
35	1.6-1.8:1
45	3-4:1
55	8-10:1
65	16-20:1

Social Security

Does that apply to you?

Retirement and Disability

<http://www.ssa.gov/myaccount/>

Retirement age 62 versus 70

Spousal and survivor benefits

What if I don't and never will have SS?

Potential Income

Pension

Retirement Assets (Qualified Assets)

Non-Retirement Assets

 Investment Assets

 Rental

 Life Insurance/annuities

Types of retirements plans

Qualified and Non qualified plans (<http://www.irs.gov/pub/irs-pdf/p560.pdf>)

Qualified

Pensions (DB, cash balance, money purchase, target benefit and DB(k)) and Profit sharing (401 (k), stock bonus, ESOP, age based PS)

Other tax advantage (non IRA) plans

SEP, SARSEP, Simple

IRAs

Deductible traditional

Non deductible traditional

Roth

Roth versus Traditional IRAs

What's similar?

Same contribution limits (\$5,500 +\$1,000 catch up over 50 o your earned income)

Same rules of what you can invest in

Same rules on prohibited transactions

What's different

No tax deductions for Roth (traditional, depends on income and access to other pension plans)

Roth can be funded after 70 ½

Tax free (most likely for Roth distributions)

No min distributions for Roth (during life)

Small Business retirement plans

SEP [IRA]

Tax-deferred growth potential

Tax-deductible contributions

Must be sole proprietor or a small business owner.

Use IRAs for contributions

Easy to establish and have almost no filing requirements

Must provide benefits to almost all employees (>21, 3 out of 5, >\$550)

Small Business retirement plans

SIMPLE [IRA]

Use IRAs for contributions

For companies with fewer 100 employees

Can be C corp, S corp, or sole proprietorship

\$12,500 per year +\$3,000 catch-up

401 (k) for business

Self-Employed 401(k)

Self-employed individuals and owner-only businesses and partnerships are eligible.

Owners' spouses may also participate.

UP to \$18,000 per year+\$6,000 catch-up

Could have profit sharing contribution up to 25% per year and 53k total.

Has to have distributions after 70 ½

Issues to consider

Taxes

Will I need the money?

RMD=required minimum distributions

Penalties for early withdrawals

Rollovers

Unrelated to retirement but equally as important is long term care

How does the farm fit into my retirement?

The farm can be sold in a lump sum (outright sale) or in installments (gradual sale).

Lease assets

Fair market value lease/rent

Installments to the next generation

The tax you pay is based on the portion reported that year

This provides an income flow over a number of years and may (probably will) put you in a lower tax bracket compared to a lump sum.

When there is family involved

The transfer is slightly more complicated and a successful transfer should start earlier and be more proactive.

Estate and gift taxes consideration

The type of business you have will matter.

Retirement & Transition Readiness



Bart Eleveld, PhD.

Extension Economist, Farm Business Management
Applied Economics Department (was AREc)

Resources to plan the management transition

- Successor “basic” management training
- Successor “advanced” management training
- Tools for growing/changing the business
- Tools for executing the management transition and ownership succession
- Further study in different learning styles

Successor basic management training

- Ag Canada's AGRIBINARs: some Canada centric but also has general farm management topics
 - <http://www.agriwebinar.com/Search.aspx>
- Chemeketa Community College Agribusiness Management program: classes, seminars and on-farm consultations
 - <http://www.chemeketa.edu/programs/agriculture/>
- OSU Agricultural Business Management Major: now available online as well as on campus
 - <http://appliedecon.oregonstate.edu/uginintro>
- OSU Business Management Major
 - <http://business.oregonstate.edu/undergraduate-programs>

Successor advanced management training

- Texas Executive Program for Agricultural Producers (TEPAP)
 - www.tepap.tamu.edu
- Northwest Agribusiness Executive Seminar (NWAES)
 - <http://nwagbizseminar.com/>

Grow/change the business

- U of MN **AgPlan** business plan software: aids in writing a comprehensive business plan
 - <https://www.agplan.umn.edu/>
- U of MN **FINPACK** financial analysis and planning software: aids in conducting detailed financial analysis and planning for farm reorganization, expansion or liquidations
 - <http://www.cffm.umn.edu/FINPACK/>
- Oregon State University's **Ag Tools** analyzes agricultural investments and enterprises using sophisticated “time value of money” or “discounted cash flow” methods
 - <http://www.agtools.org/>

Executing the transition: tools

U of MN AgTransitions software: aids in creating a comprehensive transition/succession plan

<http://www.cffm.umn.edu/products/AgTransitions.aspx>

RightRisk online courses:

“A Lasting Legacy” and “Management Succession”

<http://www.rightrisk.org/>

Different learning styles

Video Courses:

University of Vermont online videos:

<http://www.uvm.edu/farmtransfer/?Page=videos.html#differentownership>

OSU's Family Legacy tutorial DVD or (YouTube)

DVD from Bart Eleveld (with supporting documents), one free per family as part of workshop, or

Just the video portion on YouTube: <http://youtu.be/YSN5YV0HjrU>

Paper Workbooks:

U of TN:

<http://farmlandlegacy.utk.edu/workbook.html>

U of Manitoba:

<http://www.gov.mb.ca/agriculture/business-and-economics/transition-planning/transition-planning-guide.html>



From Management Transition to Business Succession

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From Transition to Succession Topics

- Introduction: I'm a lawyer, but I'm not YOUR lawyer
- Transition to Succession
- The BIG Picture
- Who? Ownership, Control and Fairness
- When? Ownership Transition Timeline
- What are you? Form of business organizations
- How? Business Organization Succession Planning Models
- Professional Advisors Meeting

Transition to Succession

- Management transition begins with:
 - Retirement of the senior generation
 - Management by the junior generation
- Succession is the transfer of ownership, which is separate from retirement
 - You can retire from management while still keeping an ownership interest in the family business, but
 - Start to transfer ownership as your successor grows skills and management.

Transition to Succession

- Today: PRELIMINARY Succession Planning
 - See all of the options and items to consider
 - Focus on YOUR family business and personal preferences
 - Working through the options together will save you time and money when...
- Later: Finalize and Implement Succession Plan
 - Take it to lawyer, accountant, etc., to work out the details.
 - Implement your plan to secure the future of your family farm

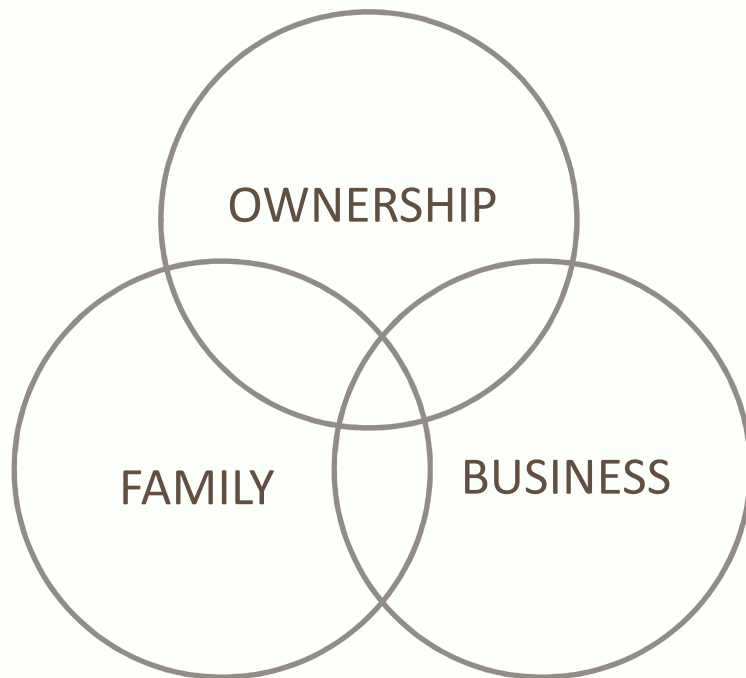
Focus on the BIG Picture

In setting your preliminary plan, be aware of the details but focus on the big picture: Your farm and your family.

Your advisors can work out the details. For now, make sure you are moving in the right direction on these topics:

- ✓ Taxes: Avoid them!
- ✓ Liability: Avoid it!
- ✓ Administrative burden
- ✓ Separate business assets (pass it on!) from personal assets (write a will/trust!)
- ✓ Fair Treatment of Family Members

Who? Ownership, Control and Fairness



The Family Business System
(Renato Tagiuri and John Davis, 1982)

Each family member has a unique place and has made a unique contribution to your business or family. Give them each a unique piece of your legacy.

Family Business Successors

- Ownership interests with management control
- Other assets as you see fit

Family not involved in the business

- Non-managing or controlling ownership interests in the business
- Insurance proceeds
- Long-term lease payments
- Personal assets

What am I? Form of businesses in the room:

Current business organizations:	Number
Sole Proprietorship	3
Partnership (Family Limited Partnership)	1
LLC	0
S-Corp	1
C-Corp	0

How? Business Organizations

- Most of your businesses are organized as limited liability companies (LLC) or corporations (C-corp or S-corp).
- If you are doing business as a sole proprietor or general partnership, reconsidering your form of business entity is Step 1 of your business succession process.
- How to choose?
 - ✓ Avoid personal liability for business debts
 - ✓ Appropriate tax structure for your situation
 - ✓ Easy transferability for business succession
 - ✓ Other attributes will depend on your preference and plans for the future
 - ✓ Let's see the options...

Comparison of Business Entities

Issue	Sole Prop	FLP/Gen Ptr	LLC	C-Corp	S-Corp
Formation	Do business	Do business w/ another	Register with State	Register with State	Register with State
Life of business	Ends with death of owner	Ends with death of partner	Agreed term or death of partner	Perpetual	Perpetual
Management	Owner	Agreement of partners	Elected/hired manager	Hired officers	Hired officers
Liability	Unlimited	Unlimited, but note FLP	Limited	Limited	Limited
Taxation	Pass-through	Pass-through	Pass-through	Double	Modified pass-through
Administrative Burden/Cost	Low	Medium	Medium-High	High	High
Transferability	Difficult	Difficult	Easy	Easy	Moderate

Types of Business Succession

Spin-off Model

- Successor's business gradually acquires the assets of the parent's business through contract.
- Successor buys assets as financing is available.
- Tools needed: Successor business, adequate cash flow/capital for successor, contracts for transfer of operating assets to successor (sale, gift, parent-financing)
- Pros: Simple, works if both generations want independence
- Cons: Clear communication and contracts for smooth transition

Parent Farm Business

- Continue ownership/control of agreed farm business enterprises
- Any ownership structure works

Assets

\$

Successor Farm Business

- Buy equipment, etc. from parents as financing available
- Agreed gradual transition of farm business enterprises
- Any ownership structure works

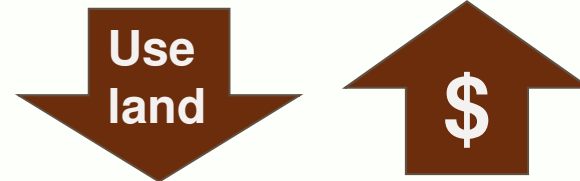
Types of Business Succession

Landlord/Tenant Model

- Parents retire to owning and renting the land and assets to the successor's operation.
- Tools needed: Successor business, leases, adequate cash flow/capital for successor, transfer of operating assets to successor (sale, gift, parent-financing)
- Pros: Simple
- Cons: Parents might not be willing to give up control, successor needs financing

Parent-Landlords

- Own the land &/or livestock
- Receive rent as income stream
- Can pass interest in land/rental income to non-farm heirs
- Any ownership structure works
- No management control



Successor-Tenant/Operator

- Buy equipment, etc. from parents as financing available
- Pay rent to parents
- Any ownership structure works
- Full management of operations

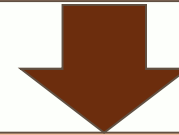
Types of Business Succession

“Superfirm” Model:

- LLC, S-Corp, C-Corp, or Limited Partnership
- Business entity remains regardless of who is managing or owns interests
- Ownership interests can be gifted, sold, or willed
- Governing rules can keep business in family
- Pros: Separate management from ownership, interests to off-farm heirs
- Cons: Complexity, must plan carefully for income and tax purposes

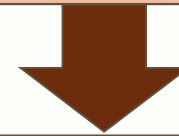
Member/Shareholders:

- Ownership interests/stock
- Receive dividend/investment income
- Parents/non-farm heirs get income without management



Board

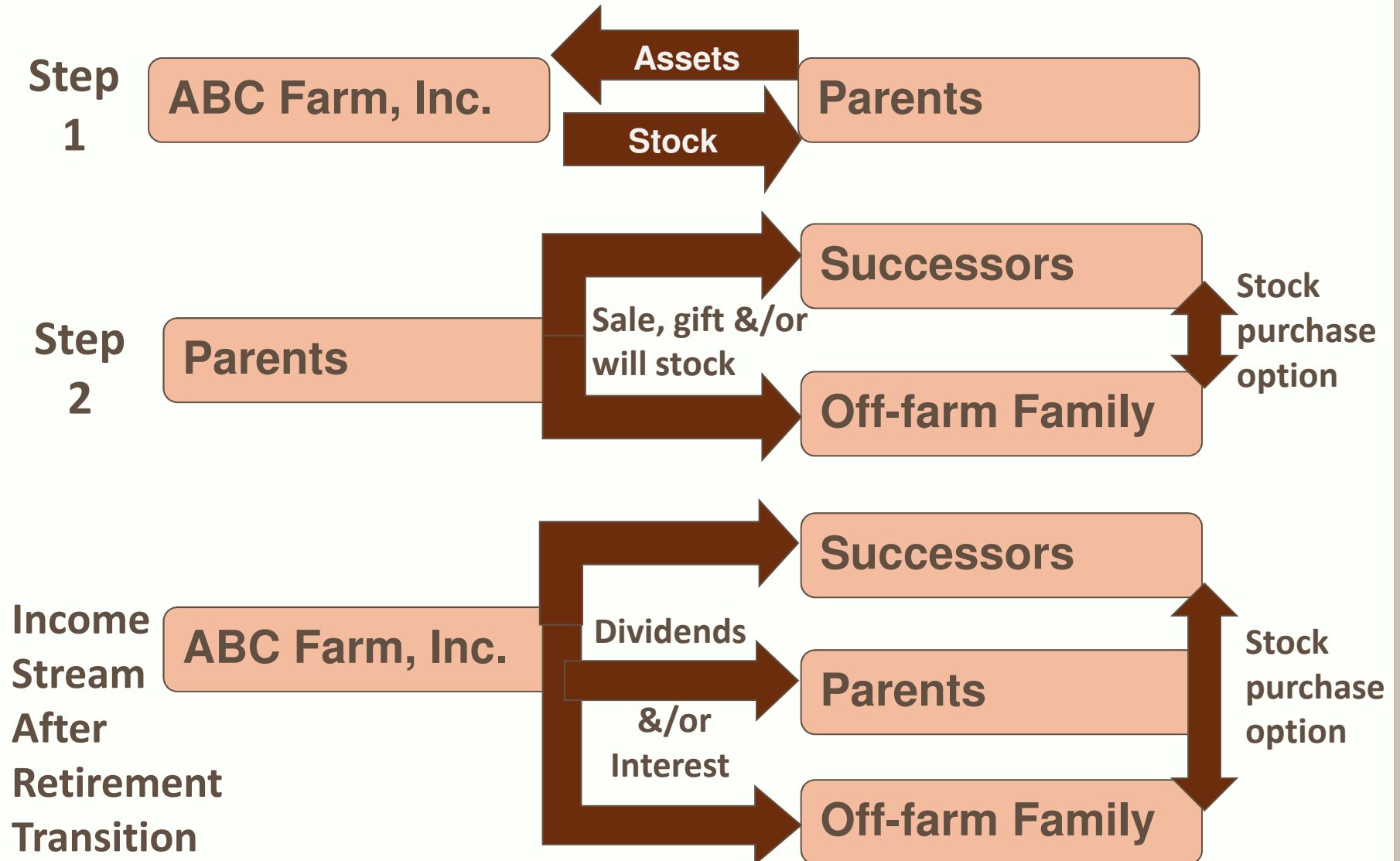
- Hires manager, big-picture business decisions



Manager/Officers

- Day to day management decisions

Types of Business Succession



Choose Your Own Adventure!

Key information to decide on the business succession model:

- **Finances:**
 - ✓ The financial position and income needs of the retiring generation.
 - ✓ The financial position, knowledge and experience of the next generation.
 - ✓ The current and future profitability of the farm—how many people can the farm support?
- **Ownership & Control:**
 - ✓ Is the retiring generation ready to give up control?
 - ✓ Is the successor generation willing to share ownership with non-farm family?
- **Complexity of your business & family dynamics**
 - ✓ If your business is profitable, stable, and your family desires ownership interests or management positions in the business in the long term, the administrative burdens and costs of a superfirm model might be worth it.

Professional Advisors Meeting

- After you have considered your options and preferences, you are ready to discuss details with your lawyer and other advisors who can help implement your plans.
- The more prepared you are for meetings, the more you will get out of them.
- The more prepared your advisors are for the meetings, the more you will get out of them and the less money you will spend.
 - Make appointments and send agendas, discussion points, documents and questions in advance.
 - Decide which family members will attend.
 - Take notes during the meeting to make additional decisions down the road.

End of Workshop Review

Understand retirement needs and resources to help transition

Business structures to support transition

Identification of management responsibilities and timeline for transition

Resources to hire professional advisors

Post- workshop questionnaire that is matched to the pre-workshop

