

PURDUE EXTENSION | SUCCESSION PLANNING TEAM



Next Steps to Successfully Growing Future Generations



United States Department of Agriculture
National Institute of Food and Agriculture



NORTH CENTRAL
EXTENSION
RISK MANAGEMENT
EDUCATION

PURDUE
EXTENSION

LOCAL FACES
COUNTLESS CONNECTIONS

Next Steps to Successfully Growing Future Farm Generations

Agenda

9:00-9:15 AM	Welcome and Introductions
9:15-9:20 AM	Split into Groups
9:20-10:10 AM	Breakout Session 1 <i>Senior Generation</i> – Financial Health <i>Junior Generation</i> – Are You A Worthy Partner?
10:10-10:20 AM	Break & Switch Rooms
10:20-11:10 AM	Breakout Session 2 <i>Senior Generation</i> – How Much Do I Need To Live? <i>Junior Generation</i> – Financial Health
11:10-11:20 AM	Break & Return to Main Group
11:20-11:50 AM	Using Life Insurance to Your Advantage
11:50-12:40 PM	Lunch
12:40-1:40 PM	Communication & Team Building
1:40-1:50 PM	Break
1:50-3:35 PM	Legal Overview and Common Pitfalls
3:35-3:45 PM	Break
3:45-4:00 PM	Goal Setting
4:00 PM	Evaluation and Wrap-up

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NORTH CENTRAL
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RISK MANAGEMENT
EDUCATION



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Welcome



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National Institute of Food and Agriculture

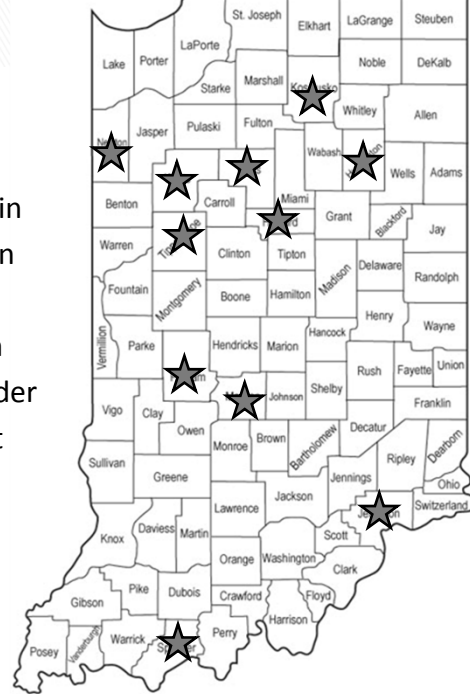
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The Purdue Farm Succession Team is committed to cultivating strong farm families through the succession planning process by providing educational opportunities and current resources.

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2017 Succession Planning Workshops

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2017 Succession Planning Workshops Program Partners

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Financial Health

Developed By: Michael Langemeier



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Outline of Presentation

- Key Financial Performance Measures
 - Working Capital to Value of Farm Production Ratio
 - Debt to Asset Ratio
 - Operating Profit Margin Ratio
 - Asset Turnover Ratio
 - Replacement Margin
- Feasibility Test
- Dividing Business Income

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Key Financial Performance Measures Case Farm Information

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West Central Indiana Case Farm

- **Farm Size**
 - Crop Acres = 3000
 - corn/soybean rotation
 - Value of Farm Production = \$1,909,452
 - Total Assets = \$9,224,768
- **Labor Force**
 - One Full-Time Operator
 - One Full-Time Employee
 - Several Part-Time Employees

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<u>Beginning of Year</u>		<u>End of Year</u>	
BALANCE SHEET		BALANCE SHEET	
Assets		Assets	
Current	\$1,736,413	Current	\$1,740,736
Noncurrent	\$7,897,644	Noncurrent	\$7,484,032
Liabilities		Liabilities	
Current	\$547,761	Current	\$546,713
Term	\$696,412	Term	\$670,372
Equity	\$8,389,884	Equity	\$8,007,684

Precise classification of assets and liabilities is important!
Identifying the reason for the change in equity is also important!

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2016 Income Statement

Value of Farm Production		1,909,452
Total Cash Expenses	1,453,747	
Accrual Expense Adjustments	3,742	
Depreciation	150,486	
Interest	73,177	
Total Farm Expenses		1,681,152
Net Farm Income		228,300

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2016 Sources and Uses of Funds

Beginning Cash Balances (1)	1,182,691
Net Cash Provided by Operating Activities (2)	165,430
Net Cash Provided by Investing Activities (3)	-257,374
Net Cash Provided by Financing Activities (4)	-26,312
Ending Cash Balances (5)	1,064,435
Unlocated Funds (1 + 2 + 3 + 4 - 5)	0

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2016 Statement of Owner's Equity

Owner Equity, January 1	8,389,884
Change in Contributed Capital and Retained Earnings	138,300
Change in Valuation Equity	-520,500
Owner Equity, December 31	8,007,684

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Key Financial Performance Measures Liquidity and Solvency

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Liquidity

- Ability of a farm business to meet financial obligations as they come due in the short term, without disrupting the normal operations of the business.
- Measured with:
 - Current Ratio (Current Assets / Current Liabilities)
 - Working Capital / Value of Farm Production

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Solvency

- Gauges the farm's ability to:
 - pay all financial obligations if all assets are sold
 - continue viable operations after financial adversity
- Measured with:
 - Debt-to-asset ratio

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Liquidity and Solvency Scores

Measure	Long-Term Benchmark	2016 Case Farm
Current Ratio	2.00	3.18
Working Capital / Value of Farm Production Ratio	35.0%	62.5%
Debt-to-Asset Ratio	< 40.0%	13.2%

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Key Financial Performance Measures Profitability

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Profitability

- Measures the extent to which a business generates a profit from the use of land, labor, management, and capital.
- Measured with:
 - Net farm income
 - Net farm income ratio (net farm income / value of farm production)
 - Operating profit margin ratio (OPM)

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Net Farm Income

- Net revenues available from normal operations after fixed and variable expenses have been deducted
- For accuracy, calculate on an accrual-adjusted basis
- For a sole proprietor, this income is available to compensate unpaid family labor, management, and equity capital

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Operating Profit Margin Ratio

- Portion of income that is operating profit
- Reflects ability to generate income and control costs
- Operating profit is available to compensate debt and equity capital

$$\left[\frac{\text{NFI} + \text{Interest} - \text{Unpaid Labor}}{\text{Value of Farm Production (VFP)}} \right] \times 100$$

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Operating Profit Margin Ratio

		2016
Net Farm Income		\$228,300
Interest Expense	+	73,177
Unpaid Family and Operator Labor	-	90,000
Net Return	=	211,477
Value of Farm Production	÷	1,909,452
Operating Profit Margin Ratio		11.1%

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Profitability Scores

Measure	Long-Term Benchmark	2016 Case Farm
Net Farm Income Ratio	30.0%	12.0%
Operating Profit Margin Ratio	20.0%	11.1%

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Operating Profit Margin Comparisons Illinois FBFM

Year	FBFM	Case Farm
2011	29.1%	31.7%
2012	27.4%	8.7%
2013	10.8%	17.5%
2014	6.8%	5.5%
2015	-3.9%	-4.4%
5-Year Average	14.0%	11.8%

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Key Financial Performance Measures

Financial Efficiency

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Asset Turnover Ratio

$$\left\{ \frac{\text{VFP}}{\text{Total Assets}} \right\} \times 100$$

- Reflects how efficiently farm assets generate income
- Indicates the volume of business generated by each dollar of assets

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2016 Asset Turnover Ratio

$$\frac{\text{VFP}}{\text{Total Assets}} \times 100 = \frac{\$ 1,909,452}{\$ 9,429,412} = 20.2\%$$

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Asset Turnover Ratio Comparisons Illinois FBFM

Year	FBFM	Case Farm
2011	33%	39%
2012	31%	26%
2013	24%	25%
2014	22%	20%
2015	18%	18%
5-Year Average	26%	26%

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Key Financial Performance Measures

Repayment Capacity

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Replacement Margin

- Measures the dollar amount of net income available to repay debts with maturities longer than one year and replace assets.
- To compute the replacement margin, we must first calculate the capital replacement capacity, and the capital replacement margin.

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Capital Debt Repayment Capacity

		2016
Net Farm Income		\$228,300
Off-Farm Income (subtract taxes)	+	0
Interest Expense on Term Debt	+	41,967
Depreciation	+	150,486
Unpaid Family and Operator Labor	-	90,000
Capital Debt Repayment Capacity		\$330,753

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Capital Debt Repayment Margin

		2016
Capital Debt Repayment Capacity		\$330,753
Interest Expense on Term Debt	-	41,967
Principal on Term Debt	-	26,459
Unpaid Operating Debt from Prior Period	-	0
Capital Debt Repayment Margin		\$262,327

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Replacement Margin

		2016
Capital Debt Repayment Margin		\$262,327
Cash Used for Capital Replacement	-	158,010
Replacement Margin	-	\$104,317

Note: The cash used for capital replacement was computed by multiplying depreciation by 1.05 (assumes a 5% farm growth rate).

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Feasibility Test

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Enough Income?

- **Minimum Size**
 - Family living
 - Principal payments
 - Economies of size
- **Maximum Size**
 - Goals
 - Risk tolerance
 - Life style
 - Managerial ability

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Income Needs

Family Living Expense	\$50,000
Debt Service	\$0
Income & Self-Employment Taxes	\$10,000
New Investment in Business	\$50,000
Savings for Education	\$0
Retirement	\$5,000
Other	\$0
Total Net Farm Income Needed	\$115,000

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Income Needs

Total Net Farm Income Needed	\$115,000
Expected Net Non-Farm Income	\$0
Net Income Needed	\$115,000

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Value of Farm Production Needed

Value of Farm Production (VFP) Needed = Net
Income Needed / Net Farm Income Ratio

$$\text{VFP Needed} = \$115,000 / 0.20 = \$575,000$$

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Value of Farm Production Needed

Scenario	Net Income Needed	NFI Ratio	VFP Needed
Base Case	\$115,000	0.20	\$575,000
Lower Net Income Needed	\$90,000	0.20	\$450,000
Higher Net Income Needed	\$140,000	0.20	\$700,000

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Value of Farm Production Needed

Scenario	Net Income Needed	NFI Ratio	VFP Needed
Base Case	\$115,000	0.20	\$575,000
Lower NFI Ratio	\$115,000	0.10	\$1,150,000
Higher NFI Ratio	\$115,000	0.30	\$383,333

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Assets Needed

Assets Needed = Value of Farm Production Needed
/ Asset Turnover Ratio

$$\text{Assets Needed} = \$575,000 / 0.30 = \$1,916,667$$

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Assets Needed

Scenario	VFP Needed	Asset Turnover Ratio	Assets Needed
Base Case	\$575,000	0.30	\$1,916,667
Lower ATR	\$575,000	0.25	\$2,300,000
Higher ATR	\$575,000	0.35	\$1,642,857

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Dividing Business Income

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Dividing Business Income

- **Common Income Sharing Models**

- **Contributions Model**

- Income is divided in the same proportion as the relative value of each party's contribution of resources to the business venture.

- **50/50 Model**

- A return is paid to each party for his/her contribution of resources to the venture. Any remaining profit or loss is shared equally.

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Dividing Business Income

- **Contributions Model**
 - **Compute the annual value of each party's contribution of resources to the venture.**
 - Land and Buildings
 - Machinery, Equipment, and Livestock
 - Working Capital
 - Labor
 - Management
 - **Net income is shared in the same proportion as each party's respective contribution to resources.**

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Dividing Business Income

- **50/50 Model**
 - **Each resource is paid a return similar to a rental payment or wage.**
 - Land and Buildings
 - Machinery, Equipment, and Livestock
 - Working Capital
 - Labor
 - Management
 - **The remaining return (or loss) is shared equally among the parties.**

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Key Take Home Messages

- How will adding a family member impact the farm's liquidity, solvency, profitability, financial efficiency, and repayment capacity?
- Is it feasible to add another family member?
- How should business income be divided?

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Questions, Comments



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Dividing Business Income

Many business ventures involve two or more individuals working together. These ventures may focus on marketing products to local consumers, the processing of farm products or other type of venture. Although these are often not complex arrangements, creating a method of equitably dividing income among the parties is important.

Below are methods to help you divide business income between the parties in an equitable manner. The two most common income sharing models are:

- **Contributions model** – Income is divided in the same proportion as the relative value of each party's contribution of resources to the business venture.
- **50/50 model** - A return is paid to each party for his/her contribution of resources to the venture. Any remaining profit or loss is shared equally among the parties.

We will discuss these models as if only two parties are involved. However, they can be used with three or more parties.

A sharing arrangement should be reviewed periodically. If the ownership pattern or the labor and management contributions change, the arrangement should be updated to reflect these changes. A common mistake and source of conflict in these arrangements is the failure to keep them current and accurate. These approaches may be interpreted from a legal perspective as a partnership because there is a sharing of profits and losses.

Contributions Model

The first step in developing the contributions model is to calculate the annual value or cost of each party's contribution of resources to the venture. These resources can be divided into five types:

- real estate (land and buildings)
- personal property (machinery, equipment, livestock, etc)
- working capital
- labor
- management

One way of thinking about the annual value or cost of a resource is the income given up or foregone by using the resource in the business venture rather than in an alternative use. For example, the annual value of ten acres of farmland that will be used by the business venture is the amount of rent that could have been received if rented to a neighbor. If the current rental rate is \$135 per acre, then the value of the contribution is \$1,350. This is the annual cost of contributing the land to the business venture. The value computed with this method is commonly referred to as opportunity cost. The same method can be used for determining an annual value or cost of buildings and facilities, although rental rates are less well established.

The annual value (cost) of machinery and equipment can be estimated by using a rental rate or by calculating the cost of ownership. The cost of ownership includes repairs, taxes, insurance, depreciation and a return on the money invested in the assets.

Working capital contributed by the parties to cover the cash flow needs of the business can be valued by using the rate of return that would have been received from an alternative investment. For example, the annual value (cost) of the contribution of \$20,000 used as working capital versus using it in an alternative investment with a rate of return of 6 percent is \$1,200. Direct expenses such as fuel, utilities, supplies, advertising and hired labor can be paid from a business account containing the working capital.

Labor can be valued by using a typical wage rate for performing comparable work. A reasonable estimate for management is more difficult to estimate, but a rule of thumb frequently used is to take ten percent of all other costs.

Net income (net of direct expenses) is then shared in the same proportion as each party's respective contribution of resources.

Example

In the example below, the annual value (cost) of the first party's contribution is \$69,000, or 60 percent of the total. The second party contributes \$46,000, or 40 percent of the total.

Table 1. Annual value of contributions.

	First party	Second party	Total
Real Estate	\$35,000	\$15,000	\$50,000
Equipment	16,000	7,000	23,000
Working capital	1,000	1,000	2,000
Labor	12,000	18,000	30,000
Management	5,000	5,000	10,000
Total	\$69,000	\$46,000	\$115,000
 Income party's net income share	 <u>69,000</u> 115,000	 = 60%	
 Second party's net income share	 <u>46,000</u> 115,000	 = 40%	

As shown below, the gross return from the year's activities is \$166,000 with \$46,000 of direct expenses. Of the \$120,000 of net returns, the first party receives a net return of \$72,000 and the second party receives \$48,000.

Table 2. Net return.

	First party	Second party	Total
Gross income			\$166,000
Direct expenses			<u>-46,000</u>
Total net return			\$120,000
 Percent distribution	 60%	 40%	
Individual net return	\$72,000	\$48,000	\$120,000

50/50 Model

In the 50/50 model, the contributions of real estate, machinery and equipment, working capital, labor and management are paid a return similar to a rental payment or a wage. The amounts can be computed in the same way as they are with the Contributions Model. The remaining return (profit) is shared equally among the parties.

Example

In the following example, net business income of \$120,000 is computed by subtracting the direct business expenses from the gross income. Next a return equal to a rental fee or cost of ownership is paid to each party for the use of land, machinery, labor and management. The remaining \$5,000 of profit is divided equally between the two parties.

Table 3. Income and expenses.

Income and expenses	Total
Gross income	\$166,000
Direct expenses	<u>- 46,000</u>
Net return	\$120,000
First party's real estate	\$-35,000
Second party's real estate	- 15,000
First party's equipment	- 16,000
Second party's equipment	- 7,000
First party's working capital	-1,000
Second party's working capital	-1,000
First party's labor & management	- 17,000
Second party's labor & management	<u>- 23,000</u>
Profit	\$5,000

Each party's total return consists of the rental or wage return from his/her respective resources plus 50% of the profits. As shown below, the first party receives \$71,500 and the second party \$48,500.

	First party	Second party	Total
Real Estate	\$35,000	\$15,000	\$50,000
Machinery & equip.	16,000	7,000	23,000
Working capital	1,000	1,000	2,000
Labor & mgmt.	17,000	23,000	40,000
Profit	2,500	2,500	5,000
Net return	\$71,500	\$48,500	\$120,000

A Decision Tool for Dividing Business Income is available at: <http://www.extension.iastate.edu/agdm/wholefarm/xls/c1-51dividingincome.xls>.

Are you a worthy partner?

1/18/17

Dakota Everts



1

Farm Credit Mid-America



Background

- Greencastle, IN
- Purdue University
- Farm Credit Mid-America
 - Growing Forward Specialist

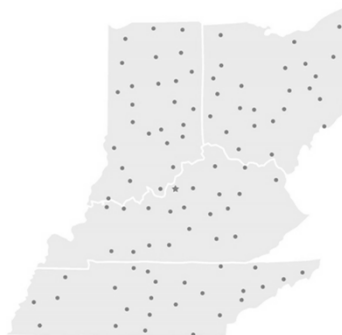
2

Farm Credit Mid-America



Farm Credit Mid-America

- Secure the future of rural communities and agriculture
- Provides loans, leases and financial services, serving members in Indiana, Ohio, Kentucky and Tennessee
- Financial cooperative created in 1916
- Part of the Farm Credit System



3

Farm Credit Mid-America



Agenda

- Credit scores
- Credit card management
- Financial statements
- Building equity
- Family living
- Insights from a lender
- Financing for young farmers

4

Farm Credit Mid-America



Credit scores

5

Farm Credit Mid-America



What is a credit score?

a number assigned to a person that indicates to lenders their capacity to repay a loan

6

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Credit scores

3 different sources

- FICO: most used
- Experian: not common
- PLUS score: consumer use

Ranges

- 300 to 850
- Higher the better
- Shoot for 700+
- 650 to 675 is “cringe zone”

Important to monitor your score to know where you stand prior to loan application

7

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Credit scores

Monitoring resources

- www.AnnualCreditReport.com (\$15-\$35 fee)
- www.CreditKarma.com (free, no strings attached)

Checking your credit score does not affect your credit score!

Moral of the story – monitor often!

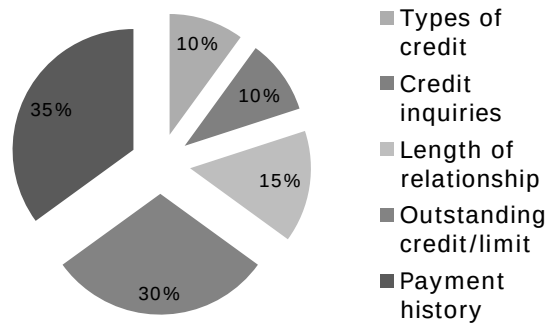
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Credit scores

What makes up a credit score?



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Credit scores

Improving your score

- Make your payments on time
- No more than 3 credit cards
- Keep your oldest credit card forever
- Limit inquiries to your credit history
 - squeeze them into a tight window
- Have different types of credit

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Credit scores

How your lender views your score

- Snapshot of credit worthiness
- History of repayment
- Overall financial management
- Credit score is to a lender as a resume is to your employer

Credit cards: friend or foe?

Credit cards

Friend

- Develop responsible financial habits
- Build your credit history
- Safer than carrying cash
- Convenient
- Use someone else's money free for 30 days
- Consumer protection
- Perks – bonus points, air miles, etc.

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Credit cards

Foe

- Spend more than you do with cash
- Build bad financial habits
- Build high interest debt
- Destroy your credit history
- Hurt your credit score

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Credit card rules

- Don't use if you don't have the money in a checking account
- Always pay full balance each month
- Never make minimum monthly payments
- Don't have more than 3 credit cards

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Financial Statements

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What do we need?

Balance sheets

- Snapshot at a certain point in time – what you own and what you owe

Income/earnings statements (taxes)

- Model for net income – where did it all go

Business plan

- Written or well-articulated
- Projected movements – cash in and cash out



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When should they be completed?

Year End

- Cash or accrual Basis
- Be consistent – 12/31/16 is different than 1/1/17.

Quarterly updates

- Primarily for livestock farmers

Any other times of the year when you make MATERIAL changes to your operation

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Why Complete the Statements?

These statements help you measure:

- Forward progress
- Warning signs
- Growth preparation
- Tax strategies

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Balance sheet dive

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What is a balance sheet?

- Snapshot at a certain point in time
- What you own vs. what you owe

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Current
assets

Current
liabilities

Non-current
assets

Non-current
liabilities

Balance sheet simplified

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Current Assets		Current Liabilities	
Cash and Equivalents		Accounts Payable	
Marketable Bonds and Securities		Farm Credit Mid-America Operati...	
Accounts and Notes Receivable		Other Operating Loans	
Commodity Trading Accounts		Outstanding Drafts/Checks	
Market Livestock Inventory		Commodity Credit Corp Loans	
Crops and Feed Inventory		Credit Card Debt	
Prepaid Expenses		Accrued Interest	
Investment in Growing Crops		Current Portion Term Debt	
Other Current Assets		Income and FICA Taxes Payable	
Total Current Assets		Total Current Liabilities	
Noncurrent Assets		Noncurrent Liabilities	
Machinery and Equipment		Farm Credit Mid-America Term Lo..	
Vehicles		Other Term Loans	
Breeding Livestock		Farm Credit Mid-America Real Es...	
Buildings and Improvements		Other Real Estate Loans	
Real Estate			
Other Noncurrent Assets			
Total Noncurrent Assets		Total Noncurrent Liabilities	
Total Assets		Total Liabilities	
		Total Equity	

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Current Assets	
Cash and Equivalents	
Marketable Bonds and Securities	
Accounts and Notes Receivable	
Commodity Trading Accounts	
Market Livestock Inventory	
Crops and Feed Inventory	
Prepaid Expenses	
Investment in Growing Crops	
Other Current Assets	
Total Current Assets	

***Checking and savings**

***Chemicals, seed, fertilizer**

***Corn and beans in the bin**

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Noncurrent Assets	
Machinery and Equipment	
Vehicles	
Breeding Livestock	
Buildings and Improvements	
Real Estate	
Other Noncurrent Assets	
Total Noncurrent Assets	

***Personal vehicles**

***Home**

***Retirement accounts**

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***Cash rent due**

***Taxes due**

Current Liabilities	
Accounts Payable	
Farm Credit Mid-America Operati...	
Other Operating Loans	
Outstanding Drafts/Checks	
Commodity Credit Corp Loans	
Credit Card Debt	
Accrued Interest	
Current Portion Term Debt	
Income and FICA Taxes Payable	
Total Current Liabilities	

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*Home and real estate loans	Noncurrent Liabilities	
	Farm Credit Mid-America Term Lo..	
	Other Term Loans	
	Farm Credit Mid-America Real Es...	
	Other Real Estate Loans	
*Machinery and vehicles loans		
*Student loan debt	Total Noncurrent Liabilities	

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Building equity

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Building equity

Equity is assets minus liabilities

3 main ways to build equity

- Increase earnings
- Appreciate assets
- Gifting/inheritance

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Building equity

What makes sense?

- Take on risk/debt when it is a good opportunity
- Pay down debt when it is advantageous to your financials
- Increase your earning where possible
 - Widen your margins
 - Increase your revenue – off farm income

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Family living

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What is family living?

- Household resources to achieve life goals
- What you want to do and how you are going to do it
- Not as messy as people think
- Related to your business finances

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Family living

What's the impact on my business?

- Can hurt cash flow
- Household debt can affect business borrowing
- Importance of insurance
- Income tax
- Investments
- Retirement
- Lack of estate planning

Family living

Budgeting

- Budget is an itemized list of income and expenses
- Track your expenses to help you revise your budget
- Related to your desired lifestyle
- Budget based on how you want to use your money

Resource – www.mint.com

Your lender as your business partner...

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What you can expect your lender to help you with?

- Support to help you complete and understand the statements.
- Feedback about what might be missing on the statements.
- Detailed financial analysis to help you understand what all the numbers mean.
- Tools for comparison to industry averages.

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How do we make the transition

Skills to make it easier

- Respect for the work that took place in prior generations
- Willingness to listen to the wishes of the previous generation
- Ability to communicate your desires for the operation
- Clearly articulate your knowledge and value as a young producer
- Business planning

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Why a business plan?

- Helps you lay out operational milestones
- Allows you to monitor progress
- Helps hold yourselves accountable
- Lays out a target income and expenses and what resources you will need to meet your goals
- Helps your lender understand your goals as well

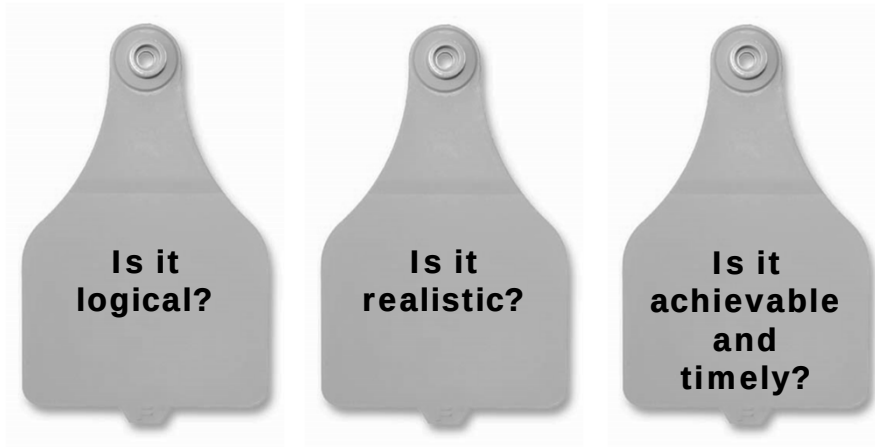


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Before you get started, ask yourself:



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Financing for young farmers

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FSA

Great option for young producers

- Farm Loan Information Chart
- www.fsa.usda.gov

Growing Forward Program

Young
<35 years
old

Beginning
<10 years
farming

Emerging
Agriculture
Markets

What can we finance?

- Agriculture real estate purchases
- Operating expenses
- Livestock and equipment purchases
- Refinancing existing agricultural purpose debt

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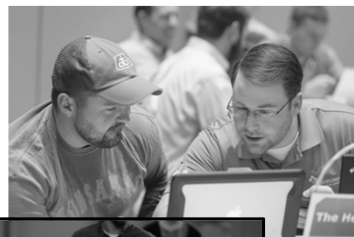
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Know to Grow

Growing Forward customers

- 4 locations (1 per state)
- Partner with industry experts
- Facilitated by FCMA
- Focus on
 - Understanding finances
 - Risk management
 - Maximizing margins
 - Business planning
 - Succession planning
- Networking opportunity



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Thank you!

How Much Do I Need to Live?

Developed By Paul Marcellino



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The Purdue Farm Succession Team is committed to cultivating strong farm families through the succession planning process by providing educational opportunities and current resources.

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Define Retirement

- Farm till I die.
- Slow down a little and pick the jobs I want.
- Turn over the keys and never look back.



Source: Clip Art Kid

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Things to Think About...

- | | |
|------------|---------------------|
| • Identity | • Financial |
| • Social | • Professional |
| • Physical | • Community Support |
| • Family | • Faith Activities |

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Retirement Fantasy or Fear

- Farm families have a unique situation
- High level of interaction between farm business and family activities
- Many farm families fail to cultivate interests that can transfer to retirement
- Spouse's retirement goals may differ
- Life expectancy
- Preservation of family farm

Picture source: Morgue File

Life Expectancy

65 year old male today is expected to live to 84

65 year old female today is expected to live to 86

- Considerations:
 - Enjoying the beach, travel, or the new home you have always dreamed about having
 - Health care costs
 - Skilled care, assisted care facilities if needed
 - Possibly less income generated
 - Passing the farm operation to the next generation

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Common Retirement Errors

- RPS (Retirement Postponement Syndrome)
- Banking on unsure things
 - Profit on sale of a home or business
 - A certain investment account balance
 - An inheritance
- Counting on an “econo-retirement”
 - Spending by retirees often increases
- Not getting help, when needed

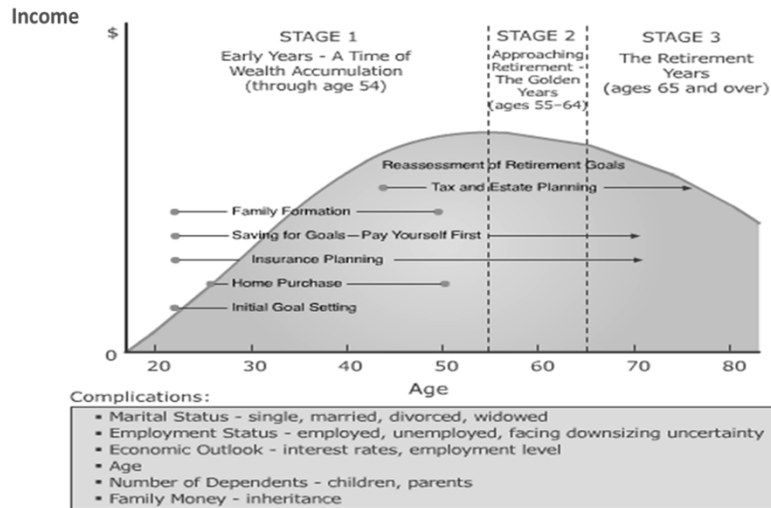
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Current Financial Situation

- How much are you worth and what portion is available for retirement
- Know your living expenses
 - General rule: 75-80% of pre-retirement income will be needed
- How are you going to adjust living expenses at retirement
- Inflation factor may out pace retirement income

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Typical Family Life Cycle Stages



Source: Annie's Project- Managing for Today and Tomorrow

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10 Essential Steps to Financial Wellness

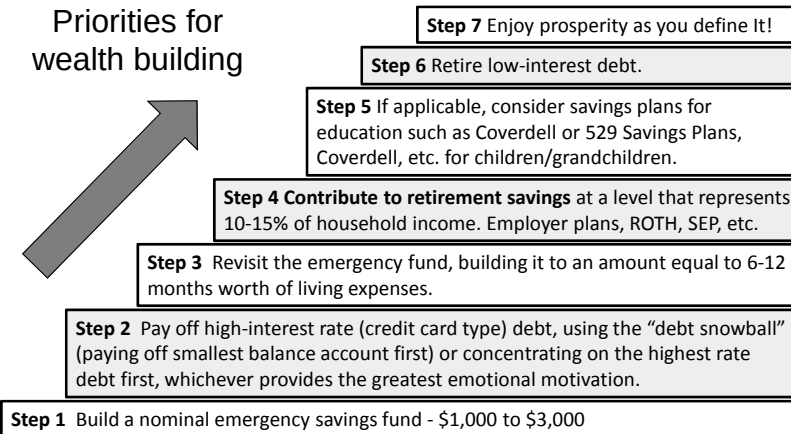
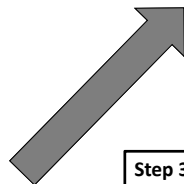
- Live beneath your means
- Pay off your credit cards
- Pay yourself first
- Save 6 months living expenses
- Make a will
- Seek wise counsel
- Fund a retirement savings plan
- Plan major expenses
- Educate yourself
- Review Progress

Source: Annie's Project- Managing for Today and Tomorrow

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Management Priorities

Priorities for wealth building



Source: Annie's Project- Managing for Today and Tomorrow

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Retirement Income Sources

Typical sources

- Social Security
- Pensions
- Savings
- 401K, 403B etc.
- Stocks
- Home Equity
- IRAs

Unique sources to the farm

- Land rental/sale
- Machinery lease/sale
- Hunting/recreational leases

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What Do I Need?

1. Determine how long you plan to work
2. Determine the amount you will need to live (remember inflation)
3. Be realistic of income from investments and prepare contingency plans for unknowns
4. What will be your withdrawal rate of principal/assets



Source:
Morguefile

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Doing the Math

Joe and Jean Farmer

- Joe & Jean Farmer- 55 years old, retire @ 68 years old
- Farm 2300 acres, 400 owned 1900 leased
- Land debt: \$600,000
- Machinery value: \$1,500,000 Machinery debt- \$400,000
- Current assets and liabilities not considered in this scenario
- Current combined current personal income \$75,000
- Jean has pension but not other retirement plans in place except social security
- Retirement Goals
 - Sell machinery to children over 7 year pay out
 - Buy a beach side condo
 - With inflation factored they need \$116,000 to match current lifestyle

Source: Morguefile

Doing the Math

- Condo- **\$750,000**
- Yearly income- **\$116,000** at retirement
- Life expectancy-88 Need 20 years of income
- 400 acres at \$175/acre= after taxes and upkeep (tiling/ lime, building maint.) **\$45,000 net/yr.**
- Estimating **4%** inflation factor
- Net current ending assets -**\$225,000**
- Social security and pension

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- Assume the current assets will cover any taxes and a down payment for the condo
- Machinery payments from children pays the condo
- Talk to your accountant about depreciation recapture and other tax consequences a few years in advance to plan best course
- Life is Good!!!

Doing the Math



Source: Morguefile

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How Much of a Nest Egg?

Desired income/yr.-	\$116,000
Land rental-	-\$45,000
Pension	-\$6,000
Combined S.S. benefits inflated \$	<u>-\$55,000</u>
Additional yearly need	\$10,000
4% Earnings rate, 20 year retirement	
Total Lump sum needed at retirement=	\$135,900
\$20,000=	\$271,800 \$40,000=\$543,600

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Retirement Income Strategies

- Key decisions will influence success
 - How you invest your money
 - How much you spend each year during retirement
 - Your decisions about account(s) from which to withdraw funds in any given year
 - Timing, including when you retire, when you start drawing social security and/or pension funds, and more

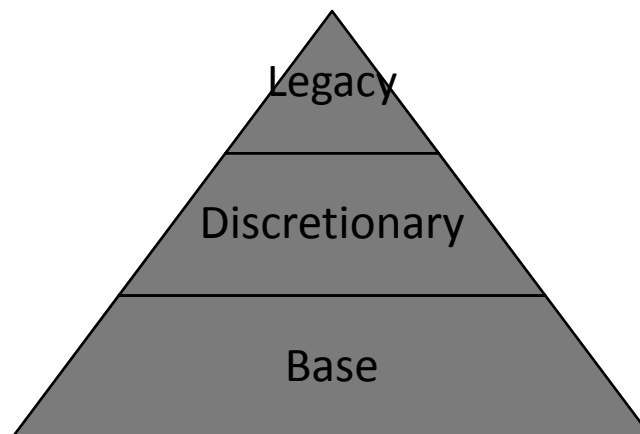
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Systematic Sustainable Withdrawals Strategy

- Focuses on a steady income stream above social security
- Historical data helps develop a plan to withdraw safe amount from portfolio each year
- 4% Rule
- Reserve fund for cushion in economic downturns

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Retirement Pyramid Strategy



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A Few Facts About Social Security

- Modest level of retirement
- Must show 40 quarters of work credits/10 years
- Medicare eligible at 65, need to enroll 3 months prior to 65 unless covered through an employer
- Many options available for currently married, widowed or ever been married 10 yrs. or longer from spouse or former spouse
- Many factors involved in benefits and requirements so check out the Social Security website
<https://www.ssa.gov/>

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A Few Facts About Social Security

- Full Retirement Age(FRA)- Between 66-67 years old- dependent on year born
- Primary Insurance Amount(PIA)- Social Security calculates monthly benefit
- COLA- Cost Of Living Adjustments
 - Don't plan an exotic vacation on COLA
- Delayed Retirement Credits
 - 8% increase per year of retirement figured monthly

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Required Minimum Distributions

- Distribution from retirement account
- Minimum withdrawal per formula but can be more
- Required each year generally at age 70.5 years of age
- Strictly enforced
- Applies to traditional IRAs, 401(k), 402(b), profit-sharing, 457, etc. Also applies to SIMPLE, SEP, KEOGH plans

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RMD Requirements on Accounts

- Annual RMD must be taken from each separate, qualified account
- 2 exceptions: Traditional IRA and 403(b) accounts can be grouped respectively
- IRAs cannot be grouped with 403(b) accounts
- Need to keep good records if investor has a diversification of accounts
- Cannot average out multiple years
- Still working exception

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Things to Consider

- Start early planning and funding for retirement
- Long-Term Illness or Skilled Nursing Facility
- Difficult to estimate returns from investments
- Goals for sustaining the family farm and achieving succession plan can alter plans
- Social Security is not meant as your only retirement benefit plan
- Will debt be paid off at retirement
- Have emergency funds and plan for the unexpected
- Assemble a professional team (attorney, CPA, and financial advisor)

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Resources

- Publications on retirement from Iowa State Extension
<https://store.extension.iastate.edu/ProductList?Keyword=retirement:%20secure%20your%20future>
- Social Security Administration: information and calculators
<https://www.ssa.gov/myaccount/>
- Planning for a Secure Retirement(Purdue Extension)
<http://www.ces.purdue.edu/retirement>
- Later Life Farming(Rutgers University)
<http://laterlife Farming.rutgers.edu/>
- Annie's Project: Managing for Today and Tomorrow
<https://store.extension.iastate.edu/ProductList?Keyword=retirement:%20secure%20your%20future>

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RETIREMENT TRANSITIONS:

Strategies for Retirement Income

What is your definition of financial success in retirement? It probably includes having enough money to meet your needs even if you live to a ripe old age. It may also include specific goals for lifestyle, activities, or legacy gifts.

Several key decisions will influence your success:

- How you invest the money you have accumulated for retirement.
- How much you spend each year during your retirement.
- Your decisions about account(s) from which to withdraw funds in any given year
- Timing, including when you retire, when you start drawing Social Security and/or pension funds, and more.

Exploring these questions before you retire will smooth your transition and enable you to approach retirement spending decisions with greater confidence. If you did not chart your financial strategy prior to retirement, these questions also can be addressed at the time you retire or after retirement. Earlier planning is recommended, however, in order to make the most of your available resources.

Few retirees have enough assets that they can live on the earnings (interest and dividends) without dipping into their principal. The strategies discussed in this publication assume that you will need to spend part (or all) of your principal over the course of your retirement.

Many retirees rely on professional advice in managing their retirement assets, because the decisions can be complex and retirees rely on these assets for the rest of their lives. If you hire a professional adviser, research your choice carefully. You wouldn't buy a car or even a major appliance without shopping around; this decision is critical to your well-being, so give it the attention it deserves. See Resources for Selecting Financial Professionals.

Even with professional advice, the decisions are up to you. Understanding core principles will help you feel confident, whether you are working independently or in conjunction with a financial professional. There is more than one approach to arranging your financial resources for retirement, each with advantages and disadvantages.

**RETIREMENT:
SECURE
YOUR
FUTURE**



SECURING YOUR FINANCIAL FUTURE SERIES

Two key approaches are described here: 1) Systematic Sustainable Withdrawals and 2) a Retirement Pyramid. As you explore options you may find variations on these approaches as well.

Systematic Sustainable Withdrawals

The systematic sustainable withdrawal approach focuses on creating a steady stream of withdrawals from the investment assets you control, such as 401(k) and IRA accounts. The intent is to generate reliable on-going income to raise your level of living above that provided by Social Security, a traditional pension, or other fixed income sources.

By analyzing historical data, experts have developed recommendations that are often used to decide how much money can safely be withdrawn from a retirement portfolio each year without depleting the balance too soon. The most well-known of these recommendations is the “Four Percent Rule”—in the first year of retirement, withdraw up to four percent of investable assets; each year after that, increase that withdrawal amount enough to keep up with inflation. Analysis has shown that over a 70-year time frame beginning in the 1920s, a retiree with a portfolio of 50 percent stocks and 50 percent bonds/fixed-income investments would have had a very high probability of successfully maintaining steady income for 30 years using the four percent rule.¹

For example, a first-year retiree with a \$100,000 investment portfolio invested in a 50-50 stock/bond ratio would withdraw and use \$4,000. In the second year, if inflation had been three percent, the withdrawal amount would be \$4,120. If inflation held at three percent, the third year withdrawal would be \$4,243. And so on.

Note: retirees may prefer to deal in round numbers, rather than precise annual adjustments; if so, rounding down is advised (i.e., \$4,200 in the last example).

Also note: in planning spending, this retiree would need to keep in mind that the \$4,000 withdrawal may be subject to income tax, yielding actual spendable income significantly lower than \$4,000.

For a 50-50 stock/bond allocation, four percent has become known as a “sustainable withdrawal rate,” which means that based on historical experience, there is at least a 90 percent chance that it can continue for 30 years without depleting the investment. If an investor chooses a different asset allocation (for example, 60-40 or 30-70), then the sustainable withdrawal rate would be different.

The four percent rule is based on historical data, and has been widely used by both individuals and financial planners. It will be successful, however, only if the future economy performs similarly to the past. If you have more pessimistic or optimistic expectations about the performance of the economy during the 20 to 30 years of your retirement, then you may decide on a lower or higher withdrawal rate. Following the Internal Revenue Service’s Required Minimum Withdrawal formula is another strategy for determining sustainable withdrawals; recent research has suggested that this strategy may be more successful than others.²

Like any rule of thumb, the four percent rule can serve as a useful starting point. Retirees are advised to reevaluate their finances periodically to determine if their withdrawals need to be decreased in order to make their money last (if portfolio performance has been poor), or if they might safely be able to increase their withdrawals (if their portfolio has performed well). Investors who anticipate their retirement might last longer than 30 years might choose to use a lower withdrawal rate.

Withdrawals. A key element of retirement investing relates to “dis-investing”—that is, deciding which assets to liquidate in order to provide retirement income. To use a sustainable withdrawal strategy, you would typically begin with a diversified portfolio established according to your preferred asset allocation and risk tolerance. That will usually mean that your assets are divided among several different types of investments. As you plan withdrawals, strategically choose which assets to sell so that you maintain your desired asset allocation.

Example

Suppose your target allocation is 50 percent stocks and 50 percent bonds/fixed income. If your stocks have grown more during the past year than your bonds, then your asset allocation may have shifted to 55 percent stocks and 45 percent bonds. To bring the portfolio back to the 50-50 balance, you would take your withdrawal from the stock portion of the portfolio. Note: most experts do not worry about moving investments around to “rebalance” a portfolio if it is only a few percentage points off the target, but when withdrawing funds, it is wise to withdraw from the portion that has grown beyond its desired share.

Over time, an investor may intentionally shift his or her asset allocation targets; a 60-year-old who chose a 50-50 split might at age 80 be more comfortable with a more conservative split. When the asset allocation is shifted, however, the withdrawal rate should be reexamined. The four percent rule has historically been appropriate for a 50-50 mix of stocks and bonds, but with a different mix, a fresh look is needed.

Timing.^{3,4} Systematic withdrawal strategies are soundly based on historical data and a very high probability of success over a 30-year time frame. Timing, however, can make a huge difference, as shown in the example at right.

As the example shows, a few years of poor investment return may or may not ruin a retiree’s income prospects, depending on when they fall within a retirement timeline. Re-evaluating investment allocation and withdrawal strategies every two to five years can enable a retiree to minimize any negative impact he/she might experience due to the timing of economic cycles.

Cushioning Economic Downturns. During any retirement lasting more than 15 to 20 years, a period of economic downturn almost certainly will occur. As the example of Retiree A and B shows, “bad timing” of a downturn can damage or ruin the financial prospects of a retiree using a systematic withdrawal strategy that would have otherwise worked fine. Fortunately, variations have been developed that minimize the impact of the down cycles that undoubtedly will occur.

Example: Take two retirees with the same portfolio, but who retired in different years.

Retiree A experienced strong portfolio growth in the first five years of retirement, then leveled off and experienced some downturns in the later years of retirement. His/her average annual return over the course of 30 years was moderate.

The portfolio of Retiree B experienced a few years of little or no growth along with two years of losses during the first several years of retirement, which were followed by some years of high or average returns throughout the remaining years. His/her average return over 30 years was the same moderate figure as Retiree A.

Both A and B had several good years as well as several years of poor or negative returns, and their average annual return was the same; however, the two retirees had very different outcomes. Why? Timing.

The diagrams below (showing hypothetical situations) illustrate how that might happen.

Dollar Value of Portfolio

Retiree A withdrew four percent each year from the portfolio, but in the first few years of retirement his/her investment returns were substantially higher than four percent, so the portfolio actually grew during those first five years.

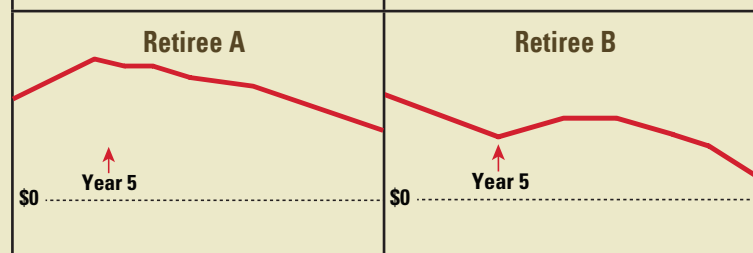
At year 5, his/her balance was high enough to sustain four percent withdrawals even when investment returns were average or poor.

The illustration shows a hypothetical situation in which even after 30 years of making withdrawals, Retiree A has nearly as much money as he or she started with.

Retiree B withdrew four percent each year from the portfolio. His/her investments experienced low returns and losses in the first few years. Those losses, combined with the withdrawal of part of his/her funds, caused the portfolio to shrink dramatically in the first few years.

At year 5, his/her balance was so low that even with some years of very good investment returns, the portfolio could not recover.

The illustration shows a hypothetical situation in which Retiree B did have enough money to last for 30 years. However, depending on the exact returns, it would certainly be possible for Retiree B to run out of money before 30 years had passed.



Reserve Fund. Despite their volatility, stocks are considered to be an important component of a retirement portfolio because they are the only type of investment likely to outpace inflation over the long term. However, the worst thing an investor can do is to buy high and sell low. If you want to sell assets (for example, shares of a mutual fund) when their price is down, then you will need to sell more shares in order to receive the dollar amount of income you desire; this sale would diminish your portfolio disproportionately and reduce your chance of sustainability. A key to cushioning one's portfolio for a downturn is to avoid selling stocks (or other assets) when their value has declined.

Drawing from a "Reserve Fund" that is invested in relatively safe and stable assets (short-term treasury securities, Certificates of Deposit, money market funds) can provide the retirement income needed during economic downturns. This enables the investor to leave his/her more-aggressive investments intact until the downturn ends and the economy recovers enough for these assets to regain their earlier value and begin to show growth.

Thus, one way to ensure your systematic withdrawals are sustainable despite downturns is to create a Reserve Fund adequate to meet your income needs for 7 to 10 years (generally considered long enough to ride out a downturn). For example, if you plan to withdraw \$10,000/year from your retirement investments to supplement any Social Security or pension income, then you would need a reserve fund of \$70,000 to \$100,000.

Having this reserve fund allows you to invest the rest of your portfolio somewhat aggressively for growth (within your risk tolerance). If you are a moderately aggressive investor, you might reasonably invest that portion of your portfolio entirely in stocks, diversified among several types of good-quality stock-based investments. Since the reserve fund covers you for down cycles, you would not be taking serious risk with this strategy, and you would reduce your risk of suffering the impact of inflation in your later years.

If you use the "Reserve Fund" strategy, you would take your annual retirement income withdrawal from the growth portion of your portfolio during times when the economy is good and your portfolio is growing. Only during times when your portfolio is trending down would you draw your annual income from the reserve fund. During down cycles, your reserve fund will be depleted somewhat, depending on the duration of the downturn, and you would need to gradually replenish it during the economic recovery that followed.

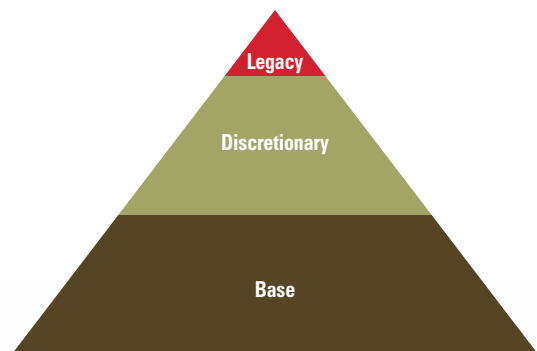
Time-Segmented Buckets. A second common strategy for ensuring that retirement withdrawals are sustainable is to divide your retirement portfolio into three to five "buckets" (accounts), each dedicated to a particular time period. A five-bucket system might include a bucket for the first 5 years, and one each for years 6 to 10, years 11 to 15, years 16 to 20 and a final bucket for all years after year 20. Those buckets with the longer time frame would be invested more aggressively, while those with a short time frame would be very safe and stable—some experts even recommend purchasing an annuity to guarantee the income in the short-term (see PM 1825D, *Income Annuities in Retirement—store.extension.iastate.edu/Product/PM1825D*).

Using the bucket approach minimizes your losses during a downturn. It requires regular maintenance, since each year a portion of each bucket would be shifted down to the next bucket in line, to fill in for the funds that were withdrawn during the year.

The initial calculation of what portion of your assets to place in each "bucket" requires careful attention. The decision must take into account your selection of asset classes for each bucket and reasonable projections of investment performance.

Retirement Pyramid

The pyramid below illustrates a second approach to retirement investing. If you follow this approach, you will allocate resources into three (or more) categories ⁵.



The **Base** should include enough resources to provide for basic living expenses, and is made up of resources that provide extremely secure life-long income. Examples of resources that might be included in the base are:

- Social Security income
- Traditional pension benefits
- Income from annuity products
- Secure rental income

For most retirees using the pyramid strategy, the base is the largest portion of their portfolio; in many cases it could include over half of their resources. In structuring your base income, consider the following factors.

Adequate income. Since relatively few workers have traditional pensions, the majority of your retirement savings may be in IRAs, 401(k), or similar tax-deferred accounts. These accounts typically do not guarantee steady income throughout retirement; instead, income available depends on the performance of the investments contained in the account. This creates a dilemma. Conservative investments such as bonds or government securities may provide very low income, but if you invest more aggressively, your investment performance would be volatile, which would not provide the security that is desirable for Base resources.

To address that dilemma within the pyramid strategy, a common solution is to use part or all of the funds in the IRA or 401(k) accounts

to purchase an annuity that would provide guaranteed lifetime income. Annuities involve certain costs and risks, but when purchased from a sound company, they do provide steady income that is quite secure.

Inflation. Even if inflation is low, it will have a substantial impact on your buying power after several years of retirement. Example with three percent inflation: If you can live on \$3,000/month in today's dollars, then in 20 years you will need over \$5,400/month to buy the same goods and services; in 30 years, you will need \$7,280.

Since Base funds must provide enough income to live on, you need to build inflation protection into your base. Social Security income does increase with inflation, although perhaps not enough to truly keep pace with costs of living in retirement. As you plan your additional sources of base income, pay attention to whether inflation is addressed.

If your base is not adequately protected for inflation, one option is to boost future income by purchasing securities that will begin to pay out at a later date, or to purchase a deferred annuity that will begin paying out later, perhaps 10 years down the road. This use of a deferred annuity is sometimes referred to as "longevity insurance."

Discretionary Funds. The second level of the pyramid is made up of investments from which you will draw money for travel, gifts, a new vehicle, or other discretionary or flexible expenses. Since it is not essential to your basic lifestyle, this portion of your funds can be invested more aggressively within your personal risk tolerance.

When making investment decisions, consider how willing you are to do without some extras in a bad year. Also keep in mind that if these are tax-deferred investments (IRA, 401(k), etc.) you will need to withdraw the required minimum distribution each year, so you may wish to diversify within these accounts. See PM 1825C, *Required Minimum Distributions —store.extension.iastate.edu/Product/PM1825C*.

Legacy Funds. The tip of your retirement pyramid is made up of assets that you do not intend to liquidate during your lifetime; instead you intend to leave them to your heirs or to charities or other beneficiaries. It is generally appropriate to invest these funds somewhat more aggressively, with a time frame of 10 or more years in mind. This can be a good place for any assets that have seen substantial gain in value; if you sell these assets during your lifetime, you would pay tax on the capital gains, but under current tax law your heirs would be able to use a stepped-up basis, minimizing or eliminating capital gains taxes. Depending on the nature of your legacy investments, you may need to plan for required minimum distributions or for covering any income taxes that might be due annually.

Other Pyramid Segments. Some planners who recommend a pyramid structure use more than three segments in their planning, although the concepts are the same. For example, segments labeled “emergency,” “contingency,” or “final expenses” may be suggested, in order to provide funds in case of events such as widowhood, serious medical events, or need for long term care. These needs might be addressed through designated investments or they might be addressed through purchase of appropriate insurance coverage.

Managed Payout Funds. Some mutual funds are specifically operated with the goal of maintaining fairly steady retirement income throughout a specified lifespan. This type of fund could be used within the Systematic Withdrawal Strategy, but users need to be aware that the income distributions would vary from year to year depending on economic factors. They also may be useful as part of the Retirement Pyramid strategy, perhaps as an additional tier between Base and Discretionary tiers. This relatively new type of fund may evolve over time.

Tax Issues

One aspect of retirement investing and withdrawals has been addressed—that of choosing appropriate investment securities (stocks, bonds, real estate, type of mutual fund, CDs, etc.) when investing your assets and when taking withdrawals to provide retirement income.

A second key aspect involves arranging your investments and withdrawals within various options for tax and legal status. Here we’re referring to whether your funds are in regular taxable accounts, tax-deferred accounts (such as IRAs or 401(k)s), or Roth accounts.

Below is a review of the key income tax-related provisions of each type of account:

Retirement Planning Impact	Legal/Tax Status of Account		
	Taxable Accounts	Tax-Deferred (Traditional IRAs, 401(k), and similar)	Roth
Impact on Investment growth	Reduced each year by income taxes	Maximized due to tax-deferral	Maximized due to tax-free status
Taxation of withdrawals or sales	Earnings portion is taxed as ordinary income or capital gains	Entire withdrawal is taxed as ordinary income	Not taxed
Requirement to withdraw	None	Annual Minimum Distributions must begin at age 70½	Roth IRA - none Roth 401(k) - Minimum Distributions must begin at age 70-1/2

To gain the greatest possible spending power from your retirement assets, you will want to pay as little income tax as possible within the law. Income tax expense often decreases during retirement, since part or all of Social Security income is tax-exempt, and since retirees generally have higher deductions. Even so, for those with moderate or higher incomes, tax management is definitely a priority. Even those with modest income need to be aware of the tax consequences of their financial decisions so as to prevent excess tax expense.

The standard strategy to minimize taxes involves selling first those assets that incur the greatest year-to-year income tax costs, letting tax-advantaged investments continue to grow; this strategy is a good starting point, although, as shown below, deviation from it is sometimes appropriate. The base strategy calls for withdrawing from retirement accounts in this order:

1. Withdraw from taxable accounts first, since they are not able to grow as rapidly as the other two types.
2. Next withdraw from Tax-Deferred accounts.
** Be sure to begin Required Minimum Distributions by age 70-1/2.*
3. Save Roth IRA funds for last, since they grow tax-free and no withdrawals are required.

This standard advice has merit, but requires advance planning to ensure that your asset allocation into stocks, bonds, and other types of securities is suited to that order of withdrawals⁶. For example, in an economic downturn you might wish to withdraw from your fixed income securities. However, if all your taxable accounts are invested in stocks, you will not be properly positioned for the standard tax-minimizing sequence of withdrawals.

Watch your tax bracket. Even when asset allocation is not an obstacle, avoid blindly following the “standard order of withdrawals” for tax minimization. Unthinking adherence to that strategy could result in certain years with unusually high taxable income that shifts you into a higher tax bracket. Review your taxable income situation near the beginning of each year, considering whether you will have any employment earnings, unusual withdrawals (such as for the purchase of a car or replacement of a roof), or other high income. Use that information to plan withdrawals that will prevent you from experiencing unnecessarily high taxable income; for example, if you anticipate high income for the year, you might choose to take a portion of your withdrawal from a Roth account, which would not be subject to income tax, even though that is contrary to the conventional wisdom.

Taxable Amount of Social Security Income.

When other income is relatively low, then no portion of Social Security income is included in

calculating taxable income. For higher-income retirees, however, up to 85 percent of Social Security benefits can be taxable. Extra taxable withdrawals from accounts such as traditional IRAs or 401(k)s may further increase income tax due by subjecting a greater portion of Social Security benefits to tax. Preventing or minimizing this impact can be another reason to withdraw from Roth accounts strategically throughout retirement, rather than saving them for late-retirement needs or legacy goals.

Other Considerations. Other factors that play a role in assessing your tax situation each year include:

- Your filing status and standard or itemized deductions
- Any unusual deductions or tax credits you may claim that year

For example, in a year when you will be eligible for a \$500 tax credit (perhaps due to an energy-saving improvement to your home), you can afford to increase your tax bill by \$500, because the extra tax will be eliminated by the credit. Depending on your tax bracket, that tax credit means you can accommodate extra income of up to \$5,000 that year without negative tax consequences.

Some experts recommend maintaining diversification among all three tax categories throughout much of retirement, giving you the flexibility to plan appropriate tax strategies.

When to Shift Assets for Retirement

Whatever strategy you choose for retirement investment and income, you will likely need to modify your investment allocation prior to retirement. For example, you may wish to move some assets into a reserve fund, or you may liquidate certain assets to purchase an annuity.

Ideally, you would shift those investments gradually during the last few years before you retire. It is risky to wait until you retire and simply move your assets into their new allocations all at once; you might sell substantial assets at a loss, or buy a large share of your new portfolio at a high price.



Planning ahead allows you to sell old investments and buy new ones little by little over a period of several years, greatly reducing your risk for serious investment losses. Careful planning also enables you to avoid significant tax consequences as you shift your assets.

SELECTING FINANCIAL PROFESSIONALS

- **FINRA – Financial Industry Regulatory Authority – Selecting Investment Professionals**—www.finra.org/investors/smartinvesting/gettingstarted/selectinginvestmentprofessional
- **Securities and Exchange Commission – Investment Advisers: What You Need to Know Before Choosing One**—www.sec.gov/investor/pubs/invadvisers.htm
- **National Extension System – Choosing Financial Professionals**—www.extension.org/pages/10899

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- 4 Wade Donald Pfau (2011). Can We Predict the Sustainable Withdrawal Rate for New Retirees? National Graduate Institute for Policy Studies (GRIPS) http://mpr.ub.uni-muenchen.de/30877/1/MPRA_paper_30877.pdf
- 5 Mitch Anthony, *The New Retirementality*, 3rd Edition (John Wiley and Sons, Inc., 2008) 281 pp.
- 6 Christine Benz, When to Break the Rules on Sequencing Retirement Withdrawals. *Morningstar.com*, 6-20-13

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Written by Barb Wollan, family finance specialist. Reviewed by a team of ISU Extension and Outreach family finance specialists. Designed by Hobbs Designs, LLC.

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RETIREMENT TRANSITIONS:

Social Security

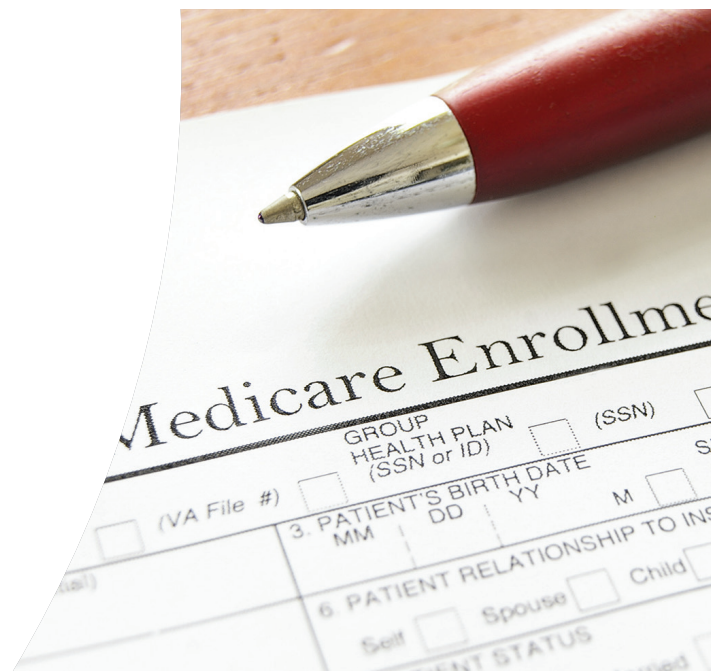
Social Security is a core component of most Americans' retirement plans. Often seen as a simple, straightforward component of retirement income, Social Security actually has numerous options regarding when to file for retirement benefits. These options have very different consequences for a lifelong retirement income. Start considering your options by using the general information provided in this fact sheet. Be sure to consult the Social Security Administration about the exact details of your personal situation, as well as the impact of any legislative changes that may occur.

For couples, comparing all your options is particularly complex. Complexity is also higher for single individuals who have the option to receive widow's benefits or spousal benefits based on a former marriage. See Part 2 of this fact sheet for information that focuses specifically on issues related to spousal and widow's benefits.

First, some basics

- Social Security is designed to provide a very modest level of retirement income; it is not designed to fully support you in retirement.
- To be eligible for Social Security retirement income, a worker's record must show at least 40 quarters of work credits (equivalent of 10 years).
- Claiming Social Security does not necessarily happen at the same time as retirement. Some people retire earlier, but wait till later to claim Social Security benefits; others choose to receive Social Security income before they fully retire.
- Your decision about when to begin receiving Social Security retirement income is separate from receiving Medicare. You are eligible for Medicare at age 65, and should take steps to enroll three months prior to turning 65, unless you are still working and are insured through your employer.
- If you are currently married, are widowed, or have ever been married for 10 years or longer, it is important to learn about your options for retirement benefits based on the earnings record of your spouse or former spouse.

RETIREMENT:
**SECURE
YOUR
FUTURE**



SECURING YOUR FINANCIAL FUTURE SERIES



Full Retirement Age

Birth Year	Full Retirement Age (FRA)
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

People with some zero years will increase their base by continuing to work a few more years, thereby removing some of the zeros from their history.

PIA. The Social Security formula calculates what your benefit will be if you retire at your Full Retirement Age; this full monthly benefit is called your “Primary Insurance Amount” (PIA). Anyone born in 1960 or later is eligible for their full retirement benefit at age 67. See the Full Retirement Age Chart for your full retirement age if you were born earlier than 1960.

COLA. Law provides for an annual cost of living adjustment (COLA), based on inflation as measured by the Consumer Price Index. The index is based on purchases of the average American household, rather than that of the typical retiree household. As a result, the CPI adjustment may not fully reflect the cost increases experienced by older adults. In addition, in years of very low inflation Social Security benefits may receive no COLA. Therefore, although benefits will likely increase somewhat, it is unrealistic for retirees to expect Social Security benefits to fully keep pace with inflation.

Adjustment for age at claim. If you claim retirement benefits before or after your full retirement age, your actual monthly benefit is adjusted from your Primary Insurance Amount. If you draw benefits before your full retirement age, your monthly benefit will be reduced from the PIA amount; if you wait until after your full retirement age, it will be increased. The degree of reduction or increase is determined by the

Considerations for Everyone

Part One — Retirement Age

The age at which you begin to receive Social Security retirement income determines your income level for the remainder of your life. Avoid following any common wisdom about when is the best age to start receiving Social Security. The best age is an individual decision, based on individual circumstances; there is no rule of thumb.

Your benefit is calculated based on an average of your 35 highest years of income (inflation-adjusted). Having several years of zero income in your top 35 will bring down your average.

number of months before or after your “full retirement age” (FRA).

Early Retirement. The earliest you can claim your Social Security retirement benefits is age 62. If your full retirement age is 66 years and 8 months, then retiring at age 62 means you are 56 months early, which would reduce your benefit by 28.3 percent. If you retire 36 months early, your benefit will be reduced by 20 percent. If you retire only 5 months early, your benefit will be reduced by only 2.8 percent. See table When to File for Social Security. The reduction in your monthly benefit is permanent.

Early Retirement Affects Survivor’s Benefits. If you claim Social Security prior to your full retirement age, your decision impacts your own income for life, but it also affects the survivor benefit available to your spouse and to any minor or disabled children after you die. In making your decision, consider the income needs of your survivors.

Reversing an Early Retirement Decision. If you claimed Social Security early and later regret that decision to reduce your lifelong benefits, you may “undo” that decision within the first 12 months; to do so, however, you must repay all of the Social Security benefits you have received. Your future Social Security benefits will then be “reset,” so when you eventually retire, your benefit will be determined by the age at which you file your new claim.

Delayed Retirement. Those who claim retirement benefits later than their full retirement age receive a higher monthly benefit due to “delayed retirement credit” (DRC). Delayed retirement credits continue until age 70; there is no additional credit if you wait till later than 70 to claim Social Security. The DRC is 8 percent for each year you delay. If you delay one year, your monthly benefit will be 8 percent higher. If you delay three years, your benefit will be 24 percent higher. The exact DRC is calculated based on the number of months you delay — so even a delay of a few months will modestly increase your benefit.

Delayed Retirement Credits = Guaranteed Return. Opportunities for guaranteed, tax-free annual returns of 8 percent are rare. Since that is the growth offered by delayed retirement credits, retirees are increasingly being advised to wait if possible until age 70 to claim their Social Security retirement benefits, in order to maximize long-term financial security.

Waiting until age 70 is obviously an option for people who continue working until 70. However, people who retire earlier may be able to delay their Social Security claim if they can draw from other sources of income until age 70. Retirees who can use other savings or investments will usually come out ahead over time by delaying their claim for Social Security until age 70 in order to take full advantage of delayed retirement credits and increase their benefit by 24 to 32 percent.

When to File for Social Security: Understand the impact of your decision

For individuals born in 1960 or later, with full retirement age of 67, the chart illustrates how monthly benefit is affected by the age at which they draw. Projections for benefits at age 90 are calculated with a hypothetical annual COLA of 2 percent every year. Actual Cost of Living Adjustment would depend on inflation as measured by the Consumer Price Index.

Note: Amount shown is the full benefit before deduction of Medicare premiums. The example Primary Insurance Amount of \$1,300 is a fairly average benefit.

Age at Claim	62	63	64	65	66	FRA 67	68	69	70
1st month benefit	910	975	1040	1127	1213	1300	1404	1508	1612
Age 90 monthly benefit with 2.0% annual COLA	1584	1664	1740	1849	1951	2050	2171	2286	2395



Drawing from savings and investments during early years of retirement may go against your instincts. Traditionally, retirees have been advised to delay drawing money from their tax-advantaged accounts (IRA, 401k, etc.) until age 70½, when they are required to do so. However, unless you can realistically expect those investment accounts to earn a return greater than 8 percent, the delay in Social Security claim will provide greater lifelong security.

Earnings Limits If You Work. Since the purpose of Social Security retirement benefits is to provide for the needs of those who are retired, the program has rules for people below their full retirement age who receive Social Security, but are still employed. Your benefits will not be affected if your employment earnings are up to \$15,480 (annual limit is adjusted each year). But if you are younger than full retirement age and earning more than the annual limit, your Social Security benefits will be reduced by \$1 for every \$2 you earn above the limit. Example: a person earning \$1,000 above the limit would have their Social Security benefit reduced by \$500. After you reach your full retirement age, your benefits are not affected by what you earn on the job. Note: there is an adjusted rule for employment earnings in the year in which you retire; consult SSA staff for specifics.

Any employment after receiving Social Security will be factored into your earnings record for future years' calculations. If it increases your average earnings for your top 35 years, then it will increase your Social Security retirement benefit. Those adjustments are made annually.

When you reach the year when you plan to begin drawing Social Security retirement income, consult with Social Security staff at or before the beginning of the calendar year. In many situations you may be able to receive Social Security income beginning in January with no earnings limit issues, even if your actual retirement date is later in the year. If you plan to retire in June, for example, you might be able to receive Social Security from January to May without triggering earnings limits. That extra five-month income could provide a few thousand extra dollars to invest or use. Note: In addition to understanding the impact of earnings limits, also consider income tax implications and the impact in terms of reduced benefits or loss of delayed retirement credits, unless you are already past age 70.

Windfall Elimination Provision. If you receive a pension from work in which Social Security taxes were not withheld from your pay, that pension may affect your Social Security benefits. Examples of such employers include some government agencies and work in other countries. A formula determines how much your Social Security benefit will be reduced by that pension. Be sure to understand this connection as you plan your retirement finances.

Part Two — Spousal Benefit Options

Part one outlines how the age at which you claim Social Security retirement income has lifelong impact on your financial well-being; that decision must be considered carefully. Couples have additional options, so the decision-making is even more complex. Complexity is also higher for single individuals who have the option to receive widow's benefits or spousal benefits based on a former marriage.

Your likelihood of maximizing your lifelong financial well-being is improved by consulting a competent financial professional or by using a reputable commercial computer analysis

tool. Several commercial calculators are available online; you will pay a modest fee for a subscription, but the benefit will likely outweigh the cost.

Overview. Instead of claiming retirement income based on your own earnings history, you have the option to claim spousal benefits based on the earnings of your current spouse, or (if not currently married) any former spouse to whom you were married for at least 10 years. In general, a spouse's benefit is half of the worker's Primary Insurance Amount (PIA). If you and your spouse have similar earnings histories, your own retirement benefit will provide better income. The spousal benefit is most helpful to those whose spouse earned significantly more than they did.

Example

Kim is eligible for a retirement income benefit (PIA) of \$500/month based on her own work record. Alternatively, she can claim a spousal benefit based on the work record of her husband, Paul. It will be equal to half of Paul's primary insurance amount (PIA). Paul's PIA = \$1,600. Kim's spousal benefit is \$800/month.

To claim benefits based on the earnings record of a former spouse, you must be currently unmarried and at least age 62; your former spouse also must be at least 62. Any benefit you claim has no impact on benefits available to your ex-spouse or to his/her other spouse(s).

Like your own retirement benefit, your spousal benefit is also permanently reduced if you claim it prior to reaching your full retirement age. The reduction in your benefit is determined by your age when you start receiving benefits, and is not impacted by your spouse's age when he/she begins receiving his/her retirement benefit. Note: Delayed retirement credits do not apply to spousal benefits; an individual can receive DRC only on his/her own retirement benefit.

Example

If Kim (see above) filed to receive her spousal benefit 9 months before her full retirement age, the benefit would be reduced by 5 percent, to \$760/month. On the other hand, if Kim waited until a year after her full retirement age to begin receiving a spousal benefit, it would not be increased, since spousal benefits are not subject to delayed retirement credits. Her spousal benefit also would not increase even if Paul had received delayed retirement credits.

If you are currently married, your spouse cannot receive a spousal benefit unless you have already filed for your own retirement benefit. If you have been divorced for at least two years, however, that rule does not apply; as long as both parties are at least age 62, then a spousal benefit can be paid regardless of the employment status of the former spouse.

File and suspend¹. If you have reached full retirement age and are not yet ready to receive retirement benefits, but your spouse would like to begin receiving spousal benefits on your record, you may file your claim for benefits and then immediately request to have payments suspended. This lets you accrue delayed retirement credits while at the same time allowing spousal benefits to be paid.

Example

Kim (see above) cannot receive a spousal benefit until Paul has claimed his own retirement benefit. If Paul wants to continue working, however, he can "file and suspend" once he reaches full retirement age.

¹ In late 2015 Congress acted to phase out the "File and Suspend" option. Exact details have not been released by SSA.



Variations are possible with “file and suspend.” Only individuals who have reached full retirement age can suspend benefits. Individuals who claim an early retirement benefit (enabling a spouse to also claim a spousal benefit) sometimes choose to suspend their retirement benefit when they reach full retirement age; this stops their own monthly Social Security income, although the spousal benefit would continue. Suspending their retirement benefit allows delayed retirement credits to accrue from that point until they re-apply or reach age 70. If their benefit is suspended for two years, they receive delayed retirement credit of 16 percent (8 percent for each year). This 16 percent increase would be applied to their previously-reduced benefit amount.

Example

Kim (see above) is 10 months younger than Paul. At age 63, she was laid off, and could not find other employment. They decided to retire and enjoy some time together, so Paul filed for his Social Security retirement benefit 24 months

early. It was reduced by 13.3 percent, to \$1,387/month. Kim filed for a spousal benefit 34 months before her full retirement age; it was reduced by 18.9 percent, to \$649.

Paul became concerned about lifelong financial security, so at his full retirement age of 66 and 6 months he suspended his retirement benefit. He returned to work full-time for three more years before reapplying for his retirement benefit. It was increased by 24 percent (8 percent per year of delay) from the original \$1,387, to a new monthly benefit of \$1,720. Kim continued to receive her reduced spousal benefit.

*(Note: this example has zero Cost of Living Adjustment built in; in actuality the amount also would probably have increased by a COLA factor each year. It also might be increased by his three additional years of work).

Due to the “file and suspend” option (as well as the restricted application option discussed below), determining how to maximize long-term Social Security income is especially complex for couples or anyone eligible for spousal benefits. The decisions involve several key questions: Will one partner claim spousal benefits early? If so, which one, and when? When will each partner claim his/her own benefit? Should one partner suspend benefits to accrue delayed retirement credits — if so, for how long? For any given couple, a huge number of possible options exist.

Widow's Benefits

A widow(er) can begin receiving retirement benefits on the deceased spouse's record as early as age 60. (Note: if children are present in the home, then Family Benefits* can begin even before age 60.) Remarriage before age 60 disqualifies you for widow's benefits; remarriage after age 60 does not. Former spouses can also receive widow's benefits if they would be eligible to receive spousal benefits.

*Note: Family benefits are available for individuals who have reached retirement but have minor children, or for workers who have died or become disabled with minor children. If the children are under age 16, a parental benefit is also available to their non-retired parent regardless of that parent's age. Learn more at SSA.

The amount of a Widow's Benefit is approximately double the amount of a spousal benefit. If you claim Widow's benefit at your own Full Retirement Age, you will receive an amount equivalent to the deceased worker's full retirement benefit. If you claim these benefits early, your amount will be reduced (permanently) according to the number of months prior to your full retirement age.

Delayed Retirement Credit for Widow(er)s.

Widows who wait until after their full retirement age to claim benefits are able to take advantage of delayed retirement credits. This difference from spousal benefits is worth noting for widows who are concerned about income adequacy throughout a potentially long lifespan.

Restricted Application Option²: Start Spousal then Switch

While the amount of a spousal benefit is calculated based on half of the working partner's primary insurance amount, the actual payment is often made up of two components: the individual's own retirement benefit (on their own earnings record), plus an additional spousal payment to bring the total up to the calculated amount.

It is possible, however, to restrict your application, so that you are claiming only

one type of benefit. If you have reached full retirement age, you may use a "Restricted Application" to begin receiving only your spousal benefit, and then later file for your own benefit, which would then be increased by delayed retirement credits. Note that for currently married couples, only one spouse can file a restricted application.

Example

When he reached his full retirement age Paul applied for Social Security spousal benefits. He restricted his application to only his spousal benefit, making it clear that he was not yet claiming his own retirement benefit. For the next three years he received \$250/month spousal benefit (half of Kim's Primary Insurance Amount), providing an additional \$3,000/year income, which he could spend or save. At age 70, he then applied for his own retirement benefit, which was substantially increased by delayed retirement credits.

Paul continued to work while receiving a spousal benefit. Since there is no earnings limit after you reach full retirement age, his benefit amount was not affected. This strategy also has value, however, for people who do not continue to be employed.

Individuals who are currently married must be full retirement age to use a restricted application. Divorced or widowed individuals have greater flexibility in using restricted applications, and may actually begin receiving spouse's or widow's benefits (reduced) at age 62 or 60, respectively. Until they reach full retirement age, however, earnings limits would apply; their benefit would be reduced if they earned more than \$15,480 (2014).

2 In late 2015 Congress acted to phase out the "Restricted Application" option. Exact details have not been released by SSA.



Example

Lee is widowed. At age 63 he retired and filed a claim for widow(er)'s benefits based on the earnings of his deceased wife. He restricted his application to only his widow's benefit, and made it clear that he was not yet claiming his own retirement benefit. He filed 36 months before his full retirement age, so his widow's benefit was reduced by 20 percent. At age 70 he applied for his retirement benefit, which was boosted by 32 percent due to delayed retirement credits.

Survivor Benefits

In general, after you die your spouse will receive survivor's benefits enough to bring his/her total Social Security income up to the same level of your monthly benefit (assuming both you and your spouse were already receiving Social Security benefits). Therefore:

- If you opt to receive Social Security benefits early, your reduction in benefit will not only apply to your income throughout your life, but also to the survivor's benefit received by your spouse.
- If the surviving spouse was the higher-earning spouse, he or she receives no additional income.

FOR MORE INFORMATION

• Social Security Administration

The Social Security Administration is the authoritative source of consumer information on Social Security and Medicare. Reach the SSA or find the local office in your area by calling 800-772-1213 or at www.socialsecurity.gov. Consumer information about Medicare is found at www.medicare.gov

• My Social Security

You can review your Social Security earnings records and see details about your retirement options by accessing your online "My Social Security" account at www.socialsecurity.gov/myaccount/. The first time you access this secure site, you will be asked to answer several questions to confirm your identity, then you will create a user name and password.

• Social Security Claiming Guide

"The Social Security Claiming Guide," 2009. Center for Retirement Research at Boston College. Available free in pdf format at <http://crr.bc.edu/booklets-brochures>

• Assistance with Spousal Options

For assistance in evaluating spousal options for claiming Social Security, consult a financial adviser or find a calculator by doing an online search for "Social Security calculator for spouse." In general, there will be a modest subscription fee to access such calculators.

IOWA STATE UNIVERSITY

Extension and Outreach

This is one in a series of publications written to challenge your thinking and start your planning for the retirement you want. Find other Iowa State University Extension and Outreach publications that can help you secure your future by searching for "retire" at our Online Store.

<http://store.extension.iastate.edu>

Written by Barbara Wollan, family finance specialist. Reviewed by a team of ISU Extension and Outreach family finance specialists. Designed by Hobbs Designs, LLC.

... and justice for all

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Retirement Income: How Much Do You Need?

When it comes to estimating retirement income, it's a temptation to throw up your hands in despair, feeling you can't possibly guess how much money you'll need. The uncertainties can be overwhelming. You may be asking yourself, "How much money will it take? Will I have enough? I don't want to think about it, I just hope it's enough. How can I really plan anyway?"

Don't let uncertainty about the future prevent you from planning for retirement income. Research indicates that those who do even a small amount of retirement planning typically achieve substantially more total assets.¹ A good estimate, even if not perfect, is far better than no plan at all.

Determining the income you'll need for retirement is a straightforward process. When you take the time to work through the process, you greatly increase the likelihood that you will be financially ready when you retire.

Your retirement plan won't be perfect, since you can't foresee the future. You *can*, however, make your best judgments about future needs and investment returns, and use them to guide your saving and investing. You'll feel greater peace of mind when you know that your savings are on track to take you to your goal.

Tools for the Process

Financial planning for retirement requires a few basic calculations, including:

- adjusting expenses for inflation,
- calculating how much your existing investments will be worth by the time you retire,
- determining what size nest egg will provide you with the ongoing income you'll need during retirement, and
- computing the additional monthly investment (if any) needed to accumulate that nest egg.

RETIREMENT:
**SECURE
YOUR
FUTURE**



SECURING YOUR FINANCIAL FUTURE SERIES



This publication outlines a five-step process for assessing retirement readiness. The financial calculations needed can be carried out in several ways.

1. The extension publication, *Retirement: Secure Your Future – Money Math*, PM 1819—store.extension.iastate.edu/Product/PM1819, provides the tables and equations you need to follow this process and do the calculations on your own. It also includes examples that illustrate the process.
2. If you are familiar with the use of a financial calculator, you can perform the calculations on your own.
3. A financial professional can take you through the process. See “Choosing an Investment Adviser” box.
4. Computerized planning tools are available for your personal computer or via the Internet. See Resources on page eight.

Even if you use a financial professional or a computerized process, it is essential that *you* understand the process used to project your retirement needs and savings. When you understand how your choices interact, you can make informed decisions about how much to save/invest, what savings/investment instruments to use, when to retire, and what lifestyle to expect.

Before You Start

The financial planning process for retirement will be most effective if you have accurate information on the following factors.

- An estimate (in today’s dollars) of the retirement income needed to provide for your needs and support the lifestyle and activities you desire in retirement. See the *Retirement Expenses worksheet*—PM 1818B, store.extension.iastate.edu/Product/PM1818B, for a guide to estimating retirement expenses.
- The age you plan to retire.
- A realistic estimate of your life expectancy. Base your life expectancy estimates on statistical averages and your knowledge of your own health and family history (hint: to be safe, plan on a long life).
- Financial investments already in place for retirement, their current balances and historic rates of return.
- Fixed income sources you can expect in retirement, estimated in today’s dollars. These include Social Security benefits, defined company pensions, and rental income (see box on page 3 for details about fixed income sources).

Step One—Determine your annual income target *(the income you wish to provide from your financial investments)*.

Step One is to determine the amount of annual income you want your investments to yield. To do that, use your estimate of retirement expenses (in today’s dollars), and your estimates of retirement income sources. Subtract your fixed income sources (Social Security, defined benefit pensions, rental income) from your total retirement expenses. The result is your **income target**, the annual income (in today’s dollars) you wish to provide from your financial investments.

Step One Example

a. Estimated Annual Retirement Expense	\$25,000
b. Fixed Retirement Annual Income Sources	
Social Security	\$ 10,000
Defined Pension	\$ 0
Rental Income	\$ 0
Other	\$ 0
Total Annual Fixed Income Sources	<u>\$10,000</u>
c. Annual Income Target to Generate	<u>\$15,000</u>

Resources for Choosing an Investment Advisor

- The Iowa Securities Division has several investor education publications available at the following URL: www.iid.state.ia.us/investor_education. Scroll down the page and click on the publication title.
- FINRA – Financial Industry Regulatory Authority – Selecting Investment Professionals www.finra.org/investors/smartinvesting/gettingstarted/selectinginvestmentprofessional/
- Securities and Exchange Commission – Investment Advisers: What You Need to Know Before Choosing One www.sec.gov/investor/pubs/invadvisers.htm
- National Extension System – Choosing Financial Professionals www.extension.org/pages/10899

Fixed Sources of Retirement Income

- **About company retirement plans**

A traditional company pension, called a defined benefit plan, would be included in your list of fixed income sources for retirement. These pensions are defined as a specified percentage of your pre-retirement income.

In recent decades, many companies have shifted to a defined contribution plan, which means that the employer and the employee contribute certain amounts to an employee's fund. The investment of those contributions is determined by the employee, typically in some type of mutual fund(s).

In this financial planning process, include a defined benefit pension as a fixed income source in Step One. Include defined contribution pensions, which are invested specifically according to your investment preferences, as part of your retirement investments in Steps Four and Five.

- **About Social Security**

Social Security has provided a base retirement income for generations. Many younger adults question whether Social Security will be available for them when they retire, due to the financial strain that the baby boomer generation will put on the system. Most experts predict that Social Security will continue to exist, although eligibility or benefits may be more limited.

A personal projection of Social Security retirement benefits, based on an individual's actual earnings history, is available by choosing "My Social Security" at www.socialsecurity.gov. A careful review will enable you to clearly understand the benefits available to you and also to ensure the accuracy of the report.

For more information, contact the Social Security Administration at 1-800-772-1213 or online. www.socialsecurity.gov

- **About rental income**

Real estate is an important component of retirement income for many Iowans. Farmland values can generally be expected to appreciate over the long term at rates at least equal to inflation, but selling price at any given point in time can vary dramatically. Likewise, return on investment (i.e., farmland rent) is affected by a variety of market forces. When real estate investment of any kind is a component of retirement planning, it is important to understand factors and trends that may affect the return.

How you factor in real estate investments as part of your financial planning for retirement depends primarily on how you plan to generate income from the real estate. If you plan to retain ownership and use the rental income as a source of retirement income, then include the rental income as a source of fixed income in Step One. If you plan to sell the land and live off the proceeds from the sale, then include the value of the land as a current asset in Step Four.



Step Two—Adjust your annual income target for inflation.

Due to inflation, it is almost certain that goods and services will cost more in the future than today. Whether your retirement is 10, 20, or 30 years away, you'll need to adjust your income target to account for the effects of inflation. Step Two is to adjust your annual income target for inflation. To calculate the adjustment, use the inflation table in PM 1819, a financial calculator, a computer program, or a financial adviser.

Before you can make the inflation adjustment, you'll need to decide what rate of inflation you expect. For years, it was general practice to plan for five percent annual inflation over the long term. However, recent years of low inflation have led some experts to use four or even three percent in planning for future goals. The rate you use will affect your income target. For example, a \$10,000 per year income target in today's dollars will be equivalent to \$16,300 in 10 years if inflation is five percent a year. If inflation averages three percent annually, then that \$10,000 would equal \$13,400 in 10 years. A cautious planner might use four or five percent inflation, but it also may be realistic to use a lower rate.

People who retire in their 60s may live well into their 90s, so a prudent retirement plan also allows for the effects of inflation during

retirement. If you are preparing for the possibility of a 30-year retirement, a simple way to calculate that adjustment is to target the midpoint, 15 years into retirement. (See the example for Step Two.) Using this method, your inflation-adjusted income target will be roughly an average of the amount you'll need over the entire retirement period.

Don't be intimidated by the large numbers you see when you adjust for inflation. If retirement is distant enough for inflation to have a big effect, then those intervening years also will produce investment returns that have an equal or greater effect on your assets.

Step Two Example

- | | |
|---------------------------------------|-----------------|
| a. Annual Income Target | \$15,000 |
| b. Time until retirement | 20 years |
| c. Half the length of your retirement | <u>15 years</u> |
| d. Time until mid-retirement (b + c) | 35 years |
| e. Projected rate of inflation | 3% |

\$15,000 per year today, at 3% inflation, after 35 years equals \$42,208 per year. (Determine this value by using PM 1819, a financial calculator, a computer program, or a professional advisor.)

Note: If the inflation adjustment in this example was made only for the first year of retirement, the result would be about \$27,000, a serious underestimate of expenses over the course of a 30-year retirement.

Step Three—Figure the lump sum that will yield the annual retirement income you need.

When you know the annual income you want your investments to produce, you can calculate the lump sum you'll need to produce that amount of income throughout your retirement. That's Step Three. Use the Lump Sum Needed to Provide Future Income table in PM 1819, a financial calculator, or get help from a computer program or a financial professional. In addition to the desired annual income amount, you also need to decide what rate of return you expect from your investments during retirement.

Step Three Examples

To generate annual income of \$42,200 over a 30-year retirement, with investments in retirement yielding an average annual return of 6%, you'll need a lump sum of \$580,000.

Note: A 6% return is used here as an example. Select the rate of return for your own calculation based on the type of investment, its past performance, and your expectations for its future performance. In general, low-risk investments earn lower rates of return and higher returns only come with increased market risk.

Step Four—Figure current assets available for retirement income.

You may already have in place a good portion of the lump sum you need, particularly if you started investing for retirement in early adulthood. Step Four is to identify your existing investments, including your 401(k), other defined contribution employer retirement plans, IRAs, and other financial accounts earmarked for retirement along with any real property that you intend to sell to finance your retirement. List the current values and the rate of return you expect from each asset. Then use the inflation table in PM 1819, a financial calculator, a computer program, or a financial professional to help you calculate how much they will be worth by the time you retire.

Step Four Example

List assets that can be expected to provide retirement income.

Asset	Current Value	Expected Average Rate of Return	Potential Value after 20 Years
401K account	\$45,000	6%	\$144,000
IRA	12,000	7%	46,000
40 acres	90,000	3%	<u>163,000</u>

Total expected value of current assets at time of retirement **\$353,000**

Step Five—Find additional investment needed.

When you know the size of the lump sum that will generate your annual income target (Step Three) and have calculated the future value of assets you already have in place (Step Four), then you can determine how much additional investment is needed. That's Step Five.

To calculate how much you need to save per month in order to reach your goal, use the table for Payments to Reach a Future Goal in PM 1819 or another financial tool. Compare the monthly savings needed with what you (and your employer) are already contributing; this tells you how much extra (if any) to save in order to reach your goal.

Step Five Example

- Lump sum goal (Step Three) **\$580,000**
- Lump sum already in place (Step Four) **–353,000**
- Additional sum to generate by retirement year (subtract b from a) **\$227,000**
- Monthly investment to accumulate additional amount (c) in 20 years with investment earning 6%
(use financial tools for this calculation) **\$490**
- Amount already being contributed monthly by self and employer to retirement investments **\$400**
- Subtract e from d. This is the approximate additional monthly savings that will enable you to reach your financial goals for retirement.

Desired monthly savings increase **\$90**



After completing step five, examine your plan carefully, looking at your projected retirement spending and the assumptions you made about age of retirement, rate of inflation, and return on investments before and after retirement. Consider whether those assumptions are realistic, and whether the additional savings needed is manageable within your current budget.

If you wish, redo your retirement calculations using different assumptions. Examples: What if inflation was higher or lower? What if your investments earned less(or more)? What if you needed to retire earlier? What if you wanted a higher retirement income?

If the results of step five are unrealistic, meaning that you are unable to reach your retirement goals, consider options to improve your projected outcomes. For example, you might work two more years before retirement, or you might shift some investments into higher-earning, though more volatile, mutual funds.

Step Six—Act on your plan.

The final step is to act on your plan. Seek information to help you put your plan into action, and stay informed about opportunities and issues that may affect retirement planning. It also is wise to review your plan every one to three years so that you stay on track toward your goals.

Retirement Income Planner

Use the worksheet below to record your own retirement planning figures, following the steps outlined in this publication. Where marked with an asterisk*, you will use publication PM 1819 (Money Math), a financial calculator, or a professional adviser to calculate your own figure.

Step One—Determine your annual income target (the income you wish to provide from your financial investments).

- a. Estimated Annual Retirement Expense \$ _____
- b. Fixed Retirement Annual Income Sources
- Social Security \$ _____
- Defined Pension \$ _____
- Rental Income \$ _____
- Other \$ _____
- Total Annual Fixed Income Sources \$ _____
- c. Annual Income Target to Generate (Subtract b from a) \$ _____

Step Two—Adjust your annual income target for inflation.

- a. Annual Income Target (See Step One, c) \$ _____
- b. Time until retirement _____ years
- c. Half the length of your retirement _____ years
- d. Time until mid-retirement (b + c) _____ years
- e. Projected rate of inflation _____ %
- f. Inflation-adjusted annual income needed \$ _____ *

Step Three—Figure the lump sum that will yield the annual retirement income you need.

- a. Annual Income (See Step Two, f) \$ _____
- b. Number of years you'll be retired _____
- c. Expected investment return during retirement _____ %
- d. Lump sum needed \$ _____ *

Step Four—Figure current assets available for retirement income.

List assets that can be expected to provide retirement income.

Name of Asset	Current Value	Expected Average Rate of Return	Potential Value after ____ Years
_____	\$ _____	_____ %	\$ _____ *
_____	\$ _____	_____ %	\$ _____ *
_____	\$ _____	_____ %	\$ _____ *
_____	\$ _____	_____ %	\$ _____ *
_____	\$ _____	_____ %	\$ _____ *
_____	\$ _____	_____ %	\$ _____ *

Total expected value of current assets at time of retirement

\$ _____

Step Five—Find additional investment needed.

- a. Lump sum goal (Step Three) \$ _____
- b. Lump sum already in place (Step Four) — _____
- c. Additional sum to generate by retirement year (Subtract b from a) \$ _____
- d. Monthly investment to accumulate additional amount (c) in _____ years with investment earning _____ percent return prior to retirement. \$ _____ *
- e. Amount already being contributed monthly by self and employer to retirement investments \$ _____
- f. Subtract e from d. This is the approximate additional monthly savings that will enable you to reach your financial goals for retirement.
- Desired monthly savings increase** \$ _____



RESOURCES

Financial calculators are available on many commercial websites. Be sure to investigate several sites, and evaluate the assumptions upon which each site bases its calculations. No endorsement of a commercial site is intended, nor is criticism implied of those not mentioned.

- **U.S. Securities and Exchange Commission**—www.sec.gov/investor/tools.shtml Offers several tools and calculators to use in making investment decisions
- **American Savings Education Council's Ballpark Estimate**—www.choosetosave.org/ballpark/
- **The Motley Fool Retirement Calculator**—www.fool.com/calcs/calculators.htm
- **AARP Retirement Calculator**—www.aarp.org/work/retirement-planning/retirement-calculator.html
- **MSN Money: Plan Your Retirement**—money.msn.com/retirement/retirement-calculator.aspx
- **Market Watch Retirement Planner**—www.marketwatch.com/retirement/tools/retirement-planning-calculator

Endnote

- ¹ Lusardi (2006) found median retirement assets doubled or more for those who did even a small amount of retirement planning in "Baby Boomer Retirement Security" http://www.nber.org/papers/w12585.pdf?new_window=1

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<http://store.extension.iastate.edu>

Written by Barb Wollan and Tim Griesdorn, family finance specialists. Reviewed by a team of ISU Extension and Outreach family finance specialists. Designed by Hobbs Designs, LLC.

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THE ROLE OF INSURANCE IN THE ESTATE PLAN

Ken Roney – Indiana Farm Bureau Insurance

Life Insurance...

- DEFINITION: A legal and binding contract that guarantees the payment of a specific amount to a beneficiary/ies upon the death of the insured or to the insured if he or she lives beyond a certain age.
- Leverages dollars.
- Can avoid Probate.
 - Direct payment to beneficiaries
- Tax advantages.
 - Proceeds income tax free.
 - Tax-deferral.
- Cost based on age and health.

Uses of Insurance

- Preserve assets and provide liquidity.
- Funeral & Final Expenses
- Probate and Administration Costs
- Spousal & Family Support
- Eliminate Debt
- Create an Estate

More Uses...

- Estate Equalization
 - "Fair" versus "Equal"
- Fund Buy-Sell Agreements
- Estate & Inheritance Taxes
- Charitable Giving
- Long-Term Care

Ownership Is Important!

- If deceased owned policy, proceeds are included for Federal Estate Tax calculations.
 - Not a concern for smaller estates.
- Common Tax Avoidance Strategies
 - Give up ownership.
 - Possible Gift Tax effects.
 - Ownership by heir/s.
 - Loss of control
 - Irrevocable Life Insurance Trusts.
 - 3 year look-back.
 - Funding via parental gifts.
 - \$14,000 annual exclusion.

Example

- *Mary passes away in 2017 with a \$1,000,000 face life policy payable to son and \$5 million in other estate assets.*
- *Her now \$6 million estate will owe federal tax of approximately **\$159,500**.*
- *If policy in ILIT or owned by child, no tax will be owed.*

Life Insurance In Estates

- | | |
|--|---|
| <ul style="list-style-type: none">• <u>Death Benefit</u><ul style="list-style-type: none">• Income Tax Free• Included for Estate Tax Calculations, when owned!• Avoids Probate | <ul style="list-style-type: none">• <u>Cash Value</u><ul style="list-style-type: none">• Counted for Estate tax.• May be subject to Probate. |
|--|---|

With Couples, the biggest **ESTATE** need usually comes with the **SECOND** death.

Designating Beneficiaries

- YOU control your beneficiaries!
- Many “strategic” uses possible.
- Review periodically.
- Not controlled by will.
 - Unless estate is named.
- Minor Beneficiaries? Consider:
 - Creating/naming a trust.
 - Uniform Transfer To Minors Act.

Settlement Options

- Specified by owner or beneficiary.
- Lump sum – Common for dealing with estate costs.
- Interest Option.
- Amount Option.
- Time Option.
- Lifetime Income.

Types Of Life Insurance

- Term
- Whole Life
- Universal Life
- Variable Life
- Survivorship Life
- Options include various riders, Single Premium, Return of Premium, etc.

Term Insurance

- Temporary Protection
- Least Expensive
- More expensive as you age.
- Annual Renewable
- Level Term

Whole Life

- Covers insured's entire life.
- Tax-deferred build up of cash values.
- Many payment and dividend options.
 - Additions.
 - Offsets.
- Access via loans.

Universal Life

- Flexible premiums.
 - Attractive for many business owners with variable income.
- Adjustable death benefit.
 - Valuable feature for growing estates.
- Cash value accessible via withdrawals and loans.
- Danger of underfunding.

Variable Life Insurance

- Cash value invested in market-based sub-accounts.
- Customized by owner.
- Higher cash values and death benefits possible.
- Exposed to risk of loss.
- Agent must be licensed registered representatives.

Survivorship Life aka Second-To-Die

- Insures two lives.
- Payable when both have passed.
- Usually less expensive than traditional single life.
- A good fit for many estate needs.
- Whole, Universal, and Variable versions available.

Insurance Based Buy – Sell Funding

- Policy best owned by BUYER.
 - Often funded with gifted dollars.
- Proceeds paid per agreement.
- Often funds an initial down-payment.
- Installment plan pays remainder.
- Promotes Estate Equalization goals.

Example

- *Family farm worth approx. \$3 Million*
- *Probate and Administration: c. \$100k*
- *“Under the line” for Federal Estate Tax.*
- *The Issue: Two heirs not active in farm.*
- *The Need:*
 - *Parent’s total equalization need: c. \$6 million. Not likely to happen.*
 - *Buy-Sell Funding: c. \$2 million. “Active heir” needs 10% to 50% down payment. Possible.*
 - *Old estate tax driven insurance policies plug in.*

Farm Family Communication: Is Everyone on the Same Team?

Developed By: Ed Farris



Purdue University Cooperative Extension Service is an equal access/equal opportunity institution.

The Purdue Farm Succession Team is committed to cultivating strong farm families through the succession planning process by providing educational opportunities and current resources.

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How does your family make important business decisions?



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Just a Glimpse Activity

- One member from each team looks at the block structure for 30 seconds.
- After they return to their teams, they have 30 seconds to instruct their teams about how to build an exact replica of the structure.
- The team cannot start to build until he has finished his instructions.
- Once he has given instructions and they are building he can no longer say anything.

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Just a Glimpse Activity

- What difficulties did you face as a team?
- What successes did you have as a team?

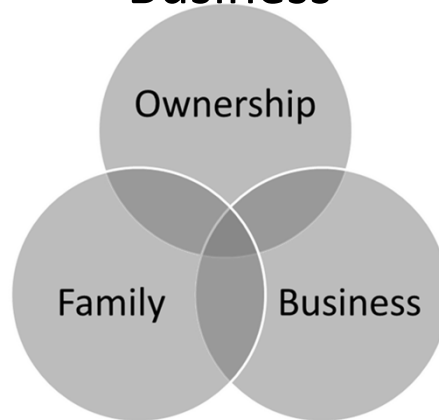
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Just a Glimpse Activity

- Who in your team communicated most effectively?
- What was it that made their communication effective?
- What frustrations did the person explaining have with those building?
- What frustrations did the “builders” have with the “explainers”?

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Three-Circle Model of Family Business



Source: Renato Tagiuri and John Davis

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Moving from “Today” to “Tomorrow’s” Team

1. Individual Preparedness

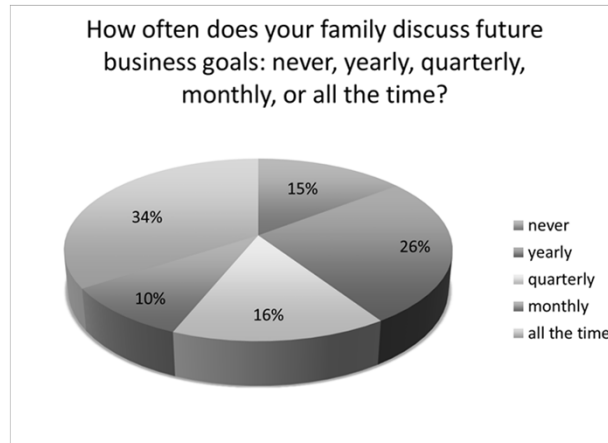
2. Team Management

Family Meetings & Communication

Job Descriptions & Performance Reviews

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Business Goals – How Often Do Families Hold Discussions?



Marshall, M. I., C. Dobbins, W.A. Miller, R. Keeney, and J. Ayers. 2012. Family business succession survey.

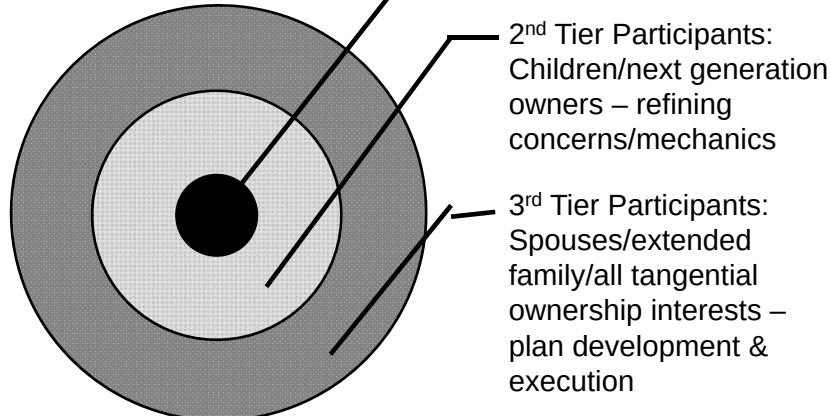
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What Is Your Team Meeting Like?



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Who's at the Table and When?



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Why Have Farm Meetings

- To openly discuss issues related to the farming operation
- To ensure everyone is on the same page
- To ensure records are kept up-to-date

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How to Get Started

- Have ground rules
- Develop an agenda
- Avoid having the meeting at the kitchen table
- Allow each person to share their opinion
- Respect each other's time
- Decide and talk about how decisions are going to be made

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3 Different Types of Meetings

- Day to Day Meetings
 - Focusing on the daily operations that need to take place
- Strategic Planning
 - Regular scheduled meetings that focus on long range activities
- Annual Business Meeting
 - Focuses on estate/succession planning
 - Discuss earnings reports and new goals

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Guidelines for Family Meetings

- Have a plan for managing conflict and dissention.
 - Conflict from another issue can impede planning. Address existing conflict and dissention first.
 - No amount of mediation can compensate for long-standing communication dysfunction.
 - Recognize what can be resolved versus managed.
 - Resolve what can be controlled
 - Manage what can not be controlled

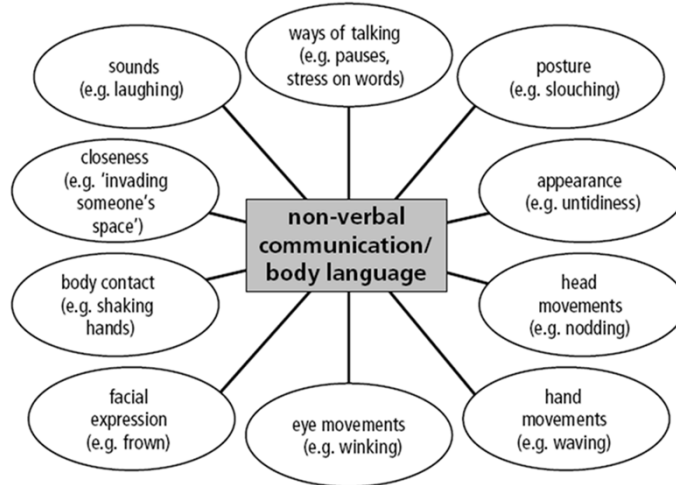
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Common Farm Meeting Pitfalls

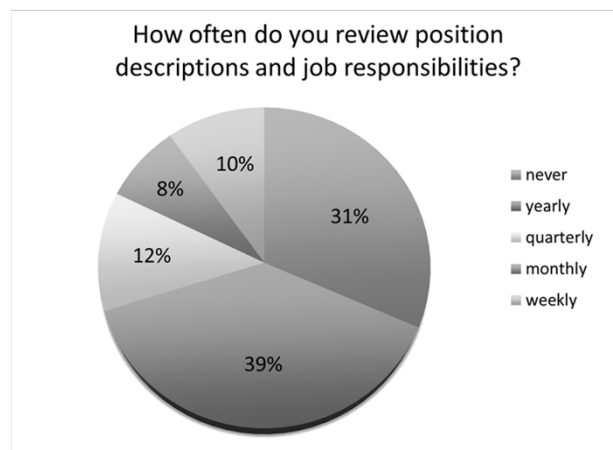
- Not having meetings
- Not having timely regular meetings
- Dominant stakeholder
- Generational differences
- Never taking a break from the meeting
- Not understanding nonverbal communication

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Interpreting Non-Verbal Communication



Job Descriptions/Responsibilities – How often are they discussed by family businesses?



Marshall, M. I., C. Dobbins, W.A. Miller, R. Keeney, and J. Ayers. 2012. Family business succession survey.

Team Management: Job Descriptions

- Clarify duties, responsibilities & authority
 - Reduce job responsibility overlap
 - Improve communication or reduce disagreements about who is in charge
- Provide performance standards
- Improve professional development programs

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Team Management: Performance Reviews

- What are my objectives for employee performance reviews?
- Who will be reviewed?
- What will be the mix of individual and group reviews?
- Will the reviews be formal or informal?
- What will be the mix of objective and subjective measures of performance?
- How often will the reviews be done?
- Who will conduct the reviews?
- What review processes will be used?

Source: Bernard Ervin, Ohio State University, 2013

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Why Worry About Performance Reviews?

“Employees and employers like performance reviews when they are win-win for both parties.

Employees will respond positively to well-planned and well-conducted reviews. The ball, therefore, rests firmly in the employer’s court.”

According to Bernard Erven, Ohio State Family Business Specialist (extension.org article 7/19/13, “Evaluating Performance and Providing Feedback to Employees”)

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Generational Differences Activity

- Think about the different generations involved on your farming operation.
- Write down the different ways you view individuals of that generation.
- Once you are finished writing, place them on the flip chart with the title for that generation.

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Closing Comments

- Family business meetings are an essential means of communication.
- The ability to evaluate employee/employer independent of familial relationship is the business standard.
- A team approach adds to the planning process. Will incorporating a team-oriented culture be your legacy?

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Farm Employee Management: Assembly of Farm Job Descriptions

File C1-73

File C1-74, *Put Job Descriptions to Work on Your Farm*, discusses the reasons why it is beneficial to have job descriptions for the positions on your farm. There are multiple bonuses to your operation. Good job descriptions aid in recruitment, interviewing, selection, and hiring of better employees. Once those employees are on your farm, employee training and development are enhanced because you know what needs to be done. This results in increased employee satisfaction and productivity. Accurate job descriptions aid in evaluating employee performance and determining if additional training is needed. Improved communication among employees occurs when everyone understands his or her duties and role in the farm operation. Finally, when you take the time to assemble and maintain updated farm job descriptions, your organization benefits as a result of this process of analyzing your labor requirements and identifying what needs to be done and by whom. The actual assembly and writing of job descriptions on your farm is not difficult, especially if you approach the task in a step-by-step manner.

Conducting a Job Analysis: Identify the key positions already in existence on your farm. Be sure to include every position in the job analysis process, including the positions and tasks performed by the owners and managers at your farm.

Then, for each position, conduct a job analysis. A job analysis is simply the process of breaking down and understanding the various elements of a position. First, explain to your employees that you are conducting a job analysis for the purpose of writing job descriptions and that you expect all employees to benefit from this process. Give each employee a form that asks three basic questions:

1. What do you do on your job? List every task that you perform from the most minor and simple to the most major and complex. List as many tasks as possible.

2. For each task you listed, state how often you perform that task, such as daily, weekly, monthly, several times a year?
3. For each task you listed, list the items of equipment or tools that you use to perform that task.

After each employee has completed this written exercise, take the time to sit down with the individual worker and go over it. You will likely find that some tasks were omitted. Inquire about what training was important to learn how to do these tasks and what additional training would be beneficial. Ask the employee, “If you were hiring someone to do your job, what qualifications or prior training would you want that employee to have?”

The job analysis process focuses on what work is currently being accomplished. However, it is helpful to think about what tasks may be going undone – and should be completed on a regular basis in your operation. This process identifies additional labor needs on the farm.

Examine the Job Analysis Results: Once the job analysis process is completed, scrutinize these results for what you might be able to learn. Sit back and think about whether the positions as currently configured make sense. Are there responsibilities and tasks that should be reassigned? Are the time and talents of some employees being wasted on menial tasks that could be assigned to newer, less experienced employees? Is there one or more positions that should be restructured or new positions to be created? Charting or diagramming the positions and work-flow on your farm may help you to see a better way to get things done.

Elements of the Job Description: Armed with the results of your job analysis process, you are ready to start writing job descriptions. The purpose is to paint a word picture of each job so that everyone in the organization understands what is expected

of that position. Most job descriptions will include at least six basic elements:

1. Job Title. Make sure the job title accurately describes the job being performed. Obviously, the types of jobs on your farm will depend on the nature of your operation, i.e., whether the farm is strictly a row crop operation or if you have a beef or dairy cattle operation, swine, poultry, or other livestock. Some operations need mechanics, computer technicians, bookkeeper/accountants, or general maintenance workers. Remember, a typical agricultural production operation has different needs from what you might have seen 30 years ago.

2. Job Summary. Immediately after the title, give a concise definition or description of the major job responsibilities. This is the type of short description that may be used for recruitment purposes.

3. Job Qualifications. List the knowledge, education, experience, or training necessary to perform the job. Include realistic physical requirements essential to perform the job such as an ability to stand for long hours at a time or lift and carry a certain weight. Do not make statements that are discriminatory on grounds of race, gender, age, or national origin.

4. Job Duties or Tasks. List all the job activities that the worker performs in that position. Start with the most frequently performed duties and proceed to the least frequent duties. The degree to which the position is specialized will impact the number of job tasks on the list. It may be helpful to include an approximate percentage of the time that duty is performed. At the end of the list, it is common to include "other duties as assigned by supervisor" to allow for flexibility.

5. Work Relationships. In this section, describe who supervises the position and whether the position includes any supervisory duties. Describe how this position relates to other positions in the organization.

6. Time of Work Description. This section is not intended to be a specific work schedule, but rather a description of the range of hours worked each week and whether the position includes night and weekend work.

Other information about the job such as compensation plans, benefit plans, and housing are generally not included in a job description. This would normally be included in a separate document for that specific purpose.

Once you have completed job descriptions for each position on your farm, you will find them to be invaluable tools in improving your organization. As you use job descriptions in employee recruitment, development, and evaluation, the process of keeping them updated will become easier as well.

As always, feel free to contact me with any of your farm employee management questions.

Farm Employee Management Series Articles

C1-70 - Get the Right Start in Hiring Employees

C1-71 - The Job Interview, and What Questions Can I Ask?

C1-72 - Do We Need an Employee Handbook?

C1-73 - Assembly of Farm Job Descriptions

C1-74 - Put Job Descriptions to Work on Your Farm

C1-75 - Evaluation and Selection of Job Candidates

C1-76 - Getting the New Employee Off to a Good Start on Day One

C1-77 - Employment Eligibility Verification – The Basics of Form I-9 Compliance

C1-78 - New Employee Orientation

... and justice for all

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Many materials can be made available in alternative formats for ADA clients. To file a complaint of discrimination, write USDA, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964.

Issued in furtherance of Cooperative Extension work, Acts of August 8 and December 30, 1914, in cooperation with the U.S. Department of Agriculture. Cathann A. Kress, director, Cooperative Extension Service, Iowa State University of Science and Technology, Ames, Iowa.

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www.extension.iastate.edu/agdm
store.extension.iastate.edu/

PERFORMANCE APPRAISAL

Employee Name _____ Position _____

Supervisor Instructions: Carefully evaluate the employee's performance. Check rating box to indicate the performance. Assign points for each rating within the scale. Write supportive details or comments on reverse side. Assign an overall performance score.

Rating Identification Score

Outstanding – Performance is exceptional in all areas and is recognizable as a major contribution.

Good – Results clearly exceed requirements. Performance is of high quality and is achieved on a consistent basis.

Satisfactory – Competent and dependable level of performance. Meets expectations.

Improvement Needed -- Performance is deficient in certain areas. Improvement is needed.

Unsatisfactory – Results are generally unacceptable.

	<u>Scale</u>
Outstanding	90 - 100
Good	80 - 89
Satisfactory	70 - 79
Improvement Needed	60 - 69
Unsatisfactory	< 60

1. **Quality:** The accuracy, thoroughness and acceptability of work performed.

☐ **Outstanding** ☐ **Good** ☐ **Satisfactory** ☐ **Improvement Needed** ☐ **Unsatisfactory** Points = ____
Supportive Details or Comments on reverse

2. **Quantity:** The volume of work produced.

☐ **Outstanding** ☐ **Good** ☐ **Satisfactory** ☐ **Improvement Needed** ☐ **Unsatisfactory** Points = ____
Supportive Details or Comments on reverse

3. **Adaptability:** The response to changing requirements and conditions.

☐ **Outstanding** ☐ **Good** ☐ **Satisfactory** ☐ **Improvement Needed** ☐ **Unsatisfactory** Points = ____
Supportive Details or Comments on reverse

4. **Cooperation:** The relationship with supervisor and co-workers including the willingness to help others with their overloads.

☐ **Outstanding** ☐ **Good** ☐ **Satisfactory** ☐ **Improvement Needed** ☐ **Unsatisfactory** Points = ____
Supportive Details or Comments on reverse

5. **Reliability:** The extent to which the employee can be relied on to complete responsibilities in a timely manner.

☐ **Outstanding** ☐ **Good** ☐ **Satisfactory** ☐ **Improvement Needed** ☐ **Unsatisfactory** Points = ____
Supportive Details or Comments on reverse

6. **Attendance and punctuality**

☐ **Outstanding** ☐ **Good** ☐ **Satisfactory** ☐ **Improvement Needed** ☐ **Unsatisfactory** Points = ____
Supportive Details or Comments on reverse

OVERALL PERFORMANCE SCORE = _____

Supervisor _____ Date _____

Employee Statement: I agree disagree with this evaluation.

Comments: _____

Employee signature _____ Date _____

Leveraging Generational Differences in the Workplace

Workforce Solutions Conference

June 23-24, 2015

Catherine Rasmussen, Extension Professor

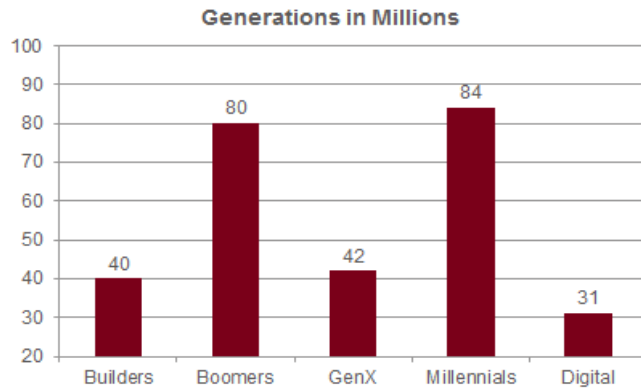
Leadership and Civic Engagement

Center for Community Vitality

rasmu035@umn.edu

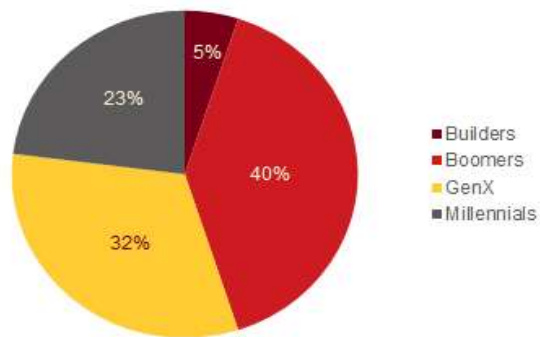
Office: 507-389-6749 Cell: 507-276-3514

Sizes of Generations - 2014



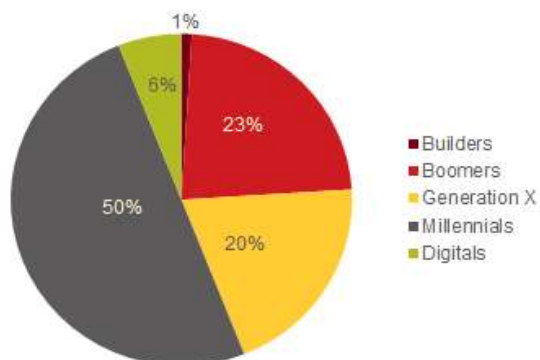
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Workers in U.S. (2014)



UNIVERSITY OF MINNESOTA | EXTENSION

Workers in U.S. (2020)



UNIVERSITY OF MINNESOTA | EXTENSION

The first of the Boomers turned 65 in 2011 and can expect to live to age 83

Every day for the next 19 years, 10,000 Boomers will turn 65

Roughly 30 million Boomers will be retiring in the next several years

Pew Research Center (2011)

Source: U.S. Census

A Snapshot of the Generations and Their Characteristics

A generation is a group that shares birth years, age, location, and significant life events at critical developmental stages.¹ Each generation adopts its characteristics through life factors that impact their viewpoints, attitudes, needs and expectations. Such factors as our culture, technology, society, media and events have a powerful influence on shaping a generation's identity.

THE BUILDERS / VETERANS (BORN PRIOR TO 1946)

- **Defining Events and Trends:** Patriotism. Families. The Great Depression. World War II. New Deal. Korean War. Golden Age of Radio. Silver screen. Postwar rise of labor unions. Family-school-faith
- **Core Values:** Dedication. Sacrifice. Hard work. Conformity. Law and order. Patience. Respect for authority. Duty before pleasure. Adherence to rules. Honor.
- **Generational Personality:** Builders are conformers. Builders are conservative spenders. They are past-oriented and history-absorbed. They believe in logic, not magic.

THE BABY BOOMERS (BORN 1946-1964)

- **Defining Events and Trends:** Prosperity. Television. Suburbia. Assassinations. Vietnam. Civil Rights movement. Cold War. Women's movement. Space race. Beatle and Elvis.
- **Core Values:** Confidence. Optimism. Team orientation. Personal gratification. Health and wellness. Personal growth and wellness. Retain youth. Work – defined by job.
- **Generational Personality:** Boomers are driven. Boomers are soul-searchers. They are willing to "go the extra mile." They have a love/hate relationship with financial prosperity.

THE GEN XERS (BORN 1965-1980)

- **Defining Events and Trends:** Watergate. Latchkey kids. Single parents. MTV. AIDS. Computers. Challenger. Fall of Berlin Wall. Wall Street frenzy. Michael Jackson and Michael Jordan
- **Core Values:** Diversity. Thinking globally. Balance. Technoliteracy. Fun. Informality. Self-reliance. Pragmatism.
- **Generational Personality:** Xers are self-reliant and risk takers. They are skeptical. They seek balance and a sense of family. They think about the job, not the work hours.

¹ Tolbize, A. (2008) Generational differences in the workplace. Research and Training Center on Community Living, University of Minnesota, p.1

THE MILLENNIALS / GEN Y (BORN 1981 – 1995)

- **Defining Events and Trends:** Technology. School violence. Oklahoma City bombing. TV talk shows. Reality TV. Multiculturalism. Girls' movement. Princess Di and Tiger Woods.
- **Core Values:** Civic Duty. Achievement. Sociability. Individualistic but group oriented. Morality. Diversity. Street Smarts.
- **Generational Personality:** Both optimistic about the future and realistic about the present. They are individualistic but also very social and prefer collective action. They are tenacious and entrepreneurial. They seek work/life balance and interested in social commitments. Millennials may have difficulty focusing on non-stimulating tasks so like to multi-task.

DIGITALS / GEN Z (BORN MID-1990'S)

- **Defining Events and Trends:** Global financial meltdown, first African American President, Asian wars and new U.S. Department of Homeland Security. Raised by hands-on Gen X parents and spend more time at home with multiple digital platforms. Schools introducing behavioral curriculum to forge into sensitive, helpful, rule-playing students.
- **Core Values:** Social media. Instant results and constant feedback. Human connections. Global mindset - local reality. Infinite diversity. Unique to them.
- **Generational Personality:** On the grid 24/7 – connected to anyone, anywhere in the world - ability to leverage this connectivity. Access more information than any others. Highly engaged parenting, teaching and counseling. Skills gaps in technology and broad skills like interpersonal communication, critical thinking. Forever creating their own personal montage of selfhood options.

Note: Generational characteristics *will not fit* every person born during the same time period.

- Generations overlap at the end points, divisions are *not* hard and fast (“tweeners”)
 - Those born early in a time period tend to be the trend-setters for their generation
 - Geography may make a difference. Attitude and values of a previous generation linger longer in rural areas.
 - Personality types and family dynamics influence individual attitudes and behaviors
-

Lancaster, Lynn C. & David Stillman, *When Generations Collide*, New York; Harper Business, 2002.

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Differences in Views of Work by Generation²

	Builders	Boomers	Gen Xers	Millennials
Work ethic	Hard working	Workaholic	Only work as hard as needed	Work hard
Attitudes towards authority/rules	Value conformity, authority & rules, & a top-down management approach	Love/hate	- Comfortable with authorities, not impressed with titles - Natural to interact with their superiors	Believe that respect must be earned
Expectations regarding respect	- Deference - Special treatment - More weight given to their opinions	- Deference - Special treatment - More weight given to their opinions	- Want to be held in esteem - Want to be listened to - Do not expect deference	- Want to be held in esteem - Want to be listened to - Do not expect deference
Preferred way to learn soft skills	- On the job - Discussion groups	- On the job - Discussion groups	- On the job - One on One coaching	- On the job - Peer interaction and feedback
Preferred way to learn hard skills	- Classroom instruction-live - On the job	- Classroom instruction-live - On the job	- On the job - One on One coaching	- On the job - Peer interaction and feedback
Feedback & supervision	Attitudes closer to boomers'	May be insulted by continuous feedback	Immediate and continuous	Immediate and continuous
Attitudes regarding loyalty to their employer	Considered among the most loyal workers	Value company commitment and loyalty	Less loyal to companies than previous generations, but loyal to people	Committed and loyal when dedicated to an idea, cause, or product
Work/life balance	Sacrifice personal life for work	Sacrifice personal life for work	Value work/life balance	Value work/life balance
Preferred leadership attributes	- Credible (65%) - Listens well (59%)	- Credible (74%) - Trusted (61%)	- Credible (71%) - Trusted (58%)	- Listens well (68%) - Dependable (66%)

² Tolbize, A. (2008) Generational differences in the workplace. Research and Training Center on Community Living, University of Minnesota, p.8-9. Retrieved from http://rtc3.umn.edu/docs/2_18_Gen_diff_workplace.pdf. Summary drawn from research See report for complete listing

Similarities in Views of Work by Generation³

	Builders	Boomers	Gen Xers	Millennials
Concerns related to changes in workplace	• Doing the same work with fewer resources • Technology changes • Change that is disorganized or unnecessary	Similar	Similar	Similar
Reasons for staying with an organization	• Opportunity to advance within the organization • Learning and development • Respect and recognition	Similar	Similar	Similar
Attitudes regarding flexibility	• Freedom to set own hours if the work gets done (76%) • Working full-time for a firm (64%)	• Freedom to set own hours if the work gets done (74%) • Working full-time for a firm (64%)	• Freedom to set own hours if the work gets done (73%) • Working full-time for a firm (63%)	• Freedom to set own hours if the work gets done (63%) • Full-time job with extended time off as needed for personal reasons (53%)
Most important aspects of workplace culture	• Fair (90%) • Ethical (90%) • Straightforward (74%)	• Fair (86%) • Ethical (84%) • Straightforward (76%)	• Fair (87%) • Ethical (83%) • Straightforward (74%)	• Fair (66%) • Ethical (66%) • Friendly/social (59%)
Top reasons for happiness in the workplace	• Feeling valued (88%) • Recognition & appreciation (84%)	Similar	Similar	Similar

"All generations have similar values; they just express them differently...How people express their values is often different by generation, just as it is often different by culture. For example, wearing jeans to work may be considered to be an expression of disrespect for the work site to a Silent or an Early Boomer who thinks that jeans are too informal for work, but to employees from the Early or Late Xer generations, wearing jeans at work is not necessarily an expression of disrespect – they just want to wear jeans."

- Jennifer Deal⁴

³ Tolbize, A. (2008) Generational differences in the workplace. Research and Training Center on Community Living, University of Minnesota, p.8-9. Retrieved from http://rtc3.umn.edu/docs/2_18_Gen_diff_workplace.pdf. Summary drawn from research See report for complete listing

⁴ Deal, J. (2007). *Retiring the generation gap: How employees young and old can find common ground*. San Francisco, CA: Jossey-Bass, p. 21-22

Leveraging the Strengths of Each Generation

As Employees, Builders:

- Have a history of excellent personal skills
- Hardworking; focus on quality
- Detail oriented, thorough
- Loyal; committed to getting the job done
- Follow the rules

To get the best from Builders:

- ➔ Honor their experience
- ➔ Involve them as mentors or trainers
- ➔ Allow for flexible schedules
- ➔ A personal thank-you from the boss goes a long way
- ➔ Don't make a fuss over them

As Employees, Boomers:

- Are proven hard workers
- Service oriented; want to please
- Function well in teams
- Compete to win, internally and externally
- May need to work more years than they initially expected

To get the best from Boomers:

- ➔ Recognize their value to the organization
- ➔ Honor their experience
- ➔ Immediate evidence of technology benefits for user & organization
- ➔ Serve as mentors/coaches
- ➔ Allow for flexible schedules

As Employees, GenXers:

- Have no fear of technology and embrace the newest
- Adaptable; creative
- Function well individually
- Teamwork can be done but isn't their preference
- Will constantly question, "Why are we doing it this way?"

To get the best from GenXers:

- ➔ Tap their expertise in technology
- ➔ Value their competence and creativity
- ➔ Provide them with their "role" within the organization
- ➔ Give some control over their time when possible

As Employees, Millennials:

- Embrace new technology and will change jobs to keep up with it
- Low tolerance for bureaucracy but civic minded
- Enjoy working w/Boomers and especially Builders
- Teamwork – true teams or groups of individuals?

To get the best from Millennials:

- ➔ Tap their expertise in technology
- ➔ Create a plan for their future with the organization
- ➔ Role rotation and cross-training
- ➔ Eliminate bureaucracy and hierarchical structures within the workplace
- ➔ Mentor and coach one-on-one

5 Best Practices for Leading a Multigenerational Workforce

Successful organizations have been able to tap into and leverage the strengths of their intergenerational workforce by creatively applying five critical principles:



1. Operate from a Sophisticated Management Style

Effectively articulate the bigger vision, specific goals and measures to employees. Study the generational composition of the workforce and use the information in many HR strategies (supervision and feedback, training to specific needs, recognition). Include all generations on boards and councils for planning and decision-making. Use multiple communication avenues – and overcommunicate.

2. Create Workplace Choices

Allow the workplace to shape itself around the work being done, clients being served, and people who do the work. This translates to decreased bureaucracy, short chain of command, a relaxed and informal environment and allowing employees to have fun.

3. Respect Competence and Initiative

Assume the best of people. Provide autonomy to do the work and reward performance accordingly. Keep young workers motivated and productive by letting them tell you where their efforts are best employed. Listen to their ideas – the next big thing for your organization may come from Twitter or the energy of a young twenty-something on your staff.

4. Accommodate Employee Differences

This means treating employees as you do your customers or clients. Identify and try to serve your employee's preferences such as work-life balance, flextime, job sharing, telecommuting, and scheduling options to accommodate a diverse workforce.

5. Nourish Retention

Focus on retention by encouraging life-long learning, offering lots of training, one-to-one coaching, mentoring and leadership opportunities. Encourage regular parallel movement between jobs with broadened assignments to gain experience and break down silos. Offer a wide variety and choices of benefits (life, health and auto insurance, 401(k) match, alumni group, tuition reimbursement, etc.)

Sources: Goudreau, J. (2/14/2013). How to communicate in the new multigenerational office. www.forbes.com.

Tolbize, A. (2008) Generational differences in the workplace. Research and Training Center on Community Living, University of Minnesota, p.8-9. Retrieved from http://rtc3.umn.edu/docs/2_18_Gen_diff_workplace.pdf.

Next Steps

The way people work, learn and want to live is changing and is generation-related. If organizations want to attract and retain quality workers, they have to proactively address the multiple generational issue. Critical questions need to be discussed to rethink policies and practices regarding work-life balance, management and training.



Critical Questions

1. What is the generational composition of our organization's workforce? What will the composition of the workforce be in five years?
2. What major changes are needed in our HR policies and practices to address and meet the needs and demands of different generations?
3. How does our organization create a work environment that fosters and leverages generational and cultural differences and knowledge?
4. How can we recognize the individuality that each person brings to work and engage employees of all ages to maximize their performance?
5. What are the differences between generations that play out in the workplace and make it challenging to manage or be managed?
6. How does our organization effectively transfer and share knowledge from experienced workers to the younger workers?
7. Given advances in technology and experiences that different generations have had with training, are there learning preferences across generations?
8. Do managers and supervisors need to adjust their motivational and leadership styles to fit each generation?
9. How does our organization accelerate getting younger workers on board given their lack of experience, skills, and training?
10. How does our organization motivate and engage mature workers to continually upgrade their skills and participate in continuous learning activities?

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Family Farm Succession & Estate Planning

Developed By Polly Dobbs, Esq.



United States Department of Agriculture
National Institute of Food and Agriculture

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The Purdue Farm Succession Team is committed to cultivating strong farm families through the succession planning process by providing educational opportunities and current resources.

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Agenda

- Legal Overview – Planning during lifetime & how assets pass at death
- Current Estate and Gift Tax Laws
- Trusts – types and when to use them
- Specific Strategies
- ILIT & Charitable Giving discussions
- Common Mistakes
- Entity Planning
- Retirement

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HOW DO I START A FARM SUCCESSION PLAN?

- No “one size fits all” solution
- Start with a checklist (see handout)
- Accurate Personal Financial Statement is home base
 - Fair market value, not cost basis or book value after depreciation
 - How are things titled – individual, joint, POD/TOD
 - Face value of life insurance, not cash value
 - Current beneficiaries of retirement accounts, annuities, life insurance
- Re-evaluate as needed

4

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Estate Planning – Not just for the old and rich

- Focus on the planning aspect.
- Protect against disability.
- Who will care for you?
- How can you make sure your wishes are fulfilled after you're gone?

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WHAT IF YOU GOT HIT BY A BUS TOMORROW?

- ...and you didn't die?
 - Court Appointed Guardian
 - "Not Dead Yet Documents"
- ...and you did die?
 - Intestacy
 - Last Will and Testament
 - Trusts

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COURT APPOINTED GUARDIAN

- Expensive to establish and maintain!
- If you become incapacitated and no documents are in place...
 - Someone may have to go to court to become appointed as Guardian of your Estate in order to handle your finances.
 - Disagreements in medical care = court appointed Guardian of your Person.

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NOT DEAD YET DOCUMENTS

- General Durable Power of Attorney
 - Can have one for farm & one for personal matters
- Appointment of Health Care Representative
- Health Care Power of Attorney
- Living Will (or Life Prolonging Procedures Declaration)

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Ways to Pass Assets at Death

- ✓ Intestacy- the do nothing plan
- ✓ By operation of law – JTWROS
- ✓ By contract – beneficiary designations, POD, TOD
- ✓ Last Will and Testament – probate
- ✓ Outright to beneficiary
- ✓ In trust for benefit of a beneficiary for period of years
- ✓ In trust for the beneficiary's lifetime

- ✓ Your Will does not govern these assets:
 - Assets Titled as Joint Tenants with Rights of Survivorship
 - Life Insurance or annuity proceeds – paid to named beneficiary
 - IRAs or Retirement Accounts – paid to named beneficiary
 - Transfer on Death (“TOD”) Payable on Death (“POD”)
- ✓ Important to fit all the puzzle pieces together!



WHAT IF I DIE WITHOUT A WILL?

- Your wishes may not be carried out!
- Property that would pass by a Will (“probate property”), will instead pass by state statutes
 - Example: half to surviving spouse and half to children
- Minor children inherit at age 18
- No preference expressed as to Personal Representative
- Your farm will be divided equally among those who take; like any other asset

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WHAT GOES IN MY WILL?

- Who’s in charge – Personal Representative (Executor)
- How are taxes allocated
- Nominate Guardian for minor children
- Specifics about Tangible Personal Property (“the stuff”)
 - Grandma’s tea cup more important than the farm
- How to divide assets – perhaps including funding of trusts

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What is Probate?

- ✓ Formal process in court where an individual is given authority to transfer a decedent's assets, either pursuant to terms of a Will, or intestacy.
- ✓ Records are public.
- ✓ May wish to avoid probate to save time and expenses.

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What Else About Probate?

- ✓ Many techniques can be used to avoid probate.
 - ✓ Revocable Trust
 - ✓ JTWRORS
 - ✓ TOD/POD *
- ✓ If probate becomes necessary, shop around for a lawyer who doesn't charge a fixed fee
- * Use sparingly – avoid multiple “mini-wills”

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LET'S TALK TAXES

- Upon death, up to \$5.49 million (as of 1/1/2017) will pass exempt from Federal Estate Tax. A married couple can pass \$10.98 million. *
- During lifetime, you may give away up to \$5.49M of your assets exempt from Federal Gift Tax, which would reduce the amount of your exemption remaining at death.
- For estates or gifts in excess of this exemption, the maximum tax rate is 40%.
*LIFE INSURANCE PROCEEDS COUNT!

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LET'S TALK TAXES, continued

- Portability Election of unused exemption to surviving spouse is not automatic. Can be a \$5.49M mistake if not timely elected!
- Annual gift tax exclusion is \$14,000 - to as many individuals as donor wishes, without reducing donor's \$5.49M estate tax exemption or triggering Gift Tax.
- State inheritance or estate taxes deserve special attention: Connecticut, Delaware, District of Columbia, Hawaii, Illinois, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, Oregon, Rhode Island, Vermont, Washington, Iowa, Kentucky, Nebraska, and Pennsylvania.
Tennessee repealed 1/1/2016 Indiana repealed 1/1/2013

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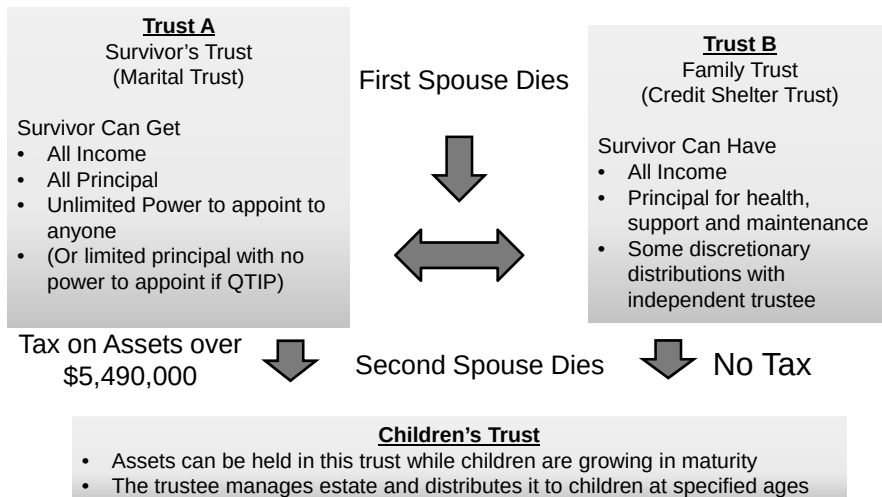
Wills Versus Revocable Living Trusts

- Revocable Living Trust are used to:
 - reduce costs and time delays by avoiding probate
 - ensure property continues to be properly managed with successor trustee provisions
 - To lessen potential challenges to or elections against the will
 - To maintain privacy
 - To avoid ancillary administration of out-of-state assets
- Disadvantages of Revocable Living Trusts
 - Does not remove assets from your gross estate (only gifting does)
 - Does not shelter assets from your creditors
 - Costs to setup

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A/B TRUST EXAMPLE



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TRUSTS

- ✓ If you don't want a beneficiary to inherit his/her share of your assets immediately, then such share can be held "in trust."
- ✓ Trust terms can be in a Will ("Testamentary Trust") or a separate document ("Revocable Trust").
 - Does not eliminate the need for a Will
 - Can be used to transfer property at death
 - May avoid probate administration in one or more states

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TRUSTS

- ✓ If you're in a second marriage with children from a first marriage you can preserve assets for your children while providing lifetime support to surviving spouse.
- ✓ Provides protection if spouse remarries.
- ✓ If you have young children you need a trust.
- ✓ Some have grown children with dependency problems, trouble handing money, bad marriages, or just don't want children to receive inheritance in a large lump sum.

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TRUSTS

- ✓ The Trust assets are “On a shelf” with trustee/gatekeeper in charge
- ✓ Beneficiaries receive distributions of the Trust’s income and perhaps principal on terms you set.
- ✓ Trust distributions can be made for health, education, and daily needs until a certain age, until an appointed advisor approves discretionary distributions, or throughout lifetimes.

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TRUST BENEFITS

- ✓ Provide asset protection – beneficiary’s creditors cannot reach assets you leave in certain trusts.
- ✓ You control who ultimately inherits the property, and can exclude spouses and step-children if you wish.

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DIVORCE PROTECTION

- ✓ Trusts and Entity documents can only provide so much divorce protection, depending on a lot of factors, including how much control the beneficiary has.
- ✓ Ultimate discretion is given to the judge in the divorce proceeding.
- ✓ Spouses have right to elect assets at death, which can be waived in a Prenup.
- ✓ Best protection is a Premarital Agreement.

**Prenup. Prenup. Prenup. Prenup. Prenup.
Prenup. Prenup. Prenup. Prenup. Prenup.**

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PLANNING FOR THE FAMILY FARM:

- “Fair” does not necessarily mean “equal” ownership among kids
- Equal tenants in common ownership may set the stage for a family feud
 - Partition actions can allow one tenant in common to trigger a court ordered auction, no matter how small an interest he owns

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The Do Nothing Plan

- No, if you ignore this, it won't go away.
- Sweetheart Will: All to spouse... then he remarries, then what!?
- Equal tenants in common ownership may set the stage for a family feud
 - Partition actions can allow one tenant in common to trigger a court ordered auction, no matter how small an interest he owns

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The Say Nothing Plan

- Planning in secrecy is a bad idea. Entitlement may be brewing at the next generation.
- Take a poll – not a vote -It's not a democracy.
- Once you decide what's fair – tell everyone – no surprises!
- “No Contest” clauses are not binding in half our states. Other techniques can build a wall to easily defend any lawsuit
 - Plan early, while you're healthy
 - Waive attorney/client confidentiality regarding intent to leave one child less or no inheritance
 - Include fee shifting provision that all fees to defend an heir's lawsuit are charged against that child's share (back door no contest clause).

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Threshold Issue

Is Co-Ownership at Next Generation Best?

- Should your children be in business together?
- Do you have a child in mind as a management successor?
- Can they get along well enough to split the cash rent?
- Could they get along if a professional farm manager was involved?

If not – pursue a different plan

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Ideas & Strategies – Divide it up

- ✓ Through Estate Plan – direct ownership of different tracts of land to different children, which they wholly own instead of co-owning the whole.
- ✓ If land is owned by an Limited Liability Entity (“LLE”) - dissolve entity at death with instructions to distribute different ground to different children.
- ✓ Give successor right to purchase land from LLE and define terms (appraisal to set price, % down with delivery of low-interest Note).
- ✓ All land (or ownership in land-holding LLE) to farming child and identify different assets for other beneficiaries.

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Ideas & Strategies – Divide it up

- ✓ Are there sufficient assets to pull this off?
 - Summer lake house
 - Winter beach condo
 - Securities accounts
- ✓ Could there be with life insurance benefits to provide liquidity to balance things out? You might not want to own the insurance yourself.
 - Irrevocable Life Insurance Trust (“ILIT”)
 - Direct ownership by children

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Irrevocable Life Insurance Trust (“ILIT”)

- ✓ Face Value of life insurance “counts” toward the \$5.49M (\$10.98M) estate tax exemption
- ✓ Transfer existing insurance to an ILIT – 3 year lookback for estate inclusion
- ✓ Apply for and own new insurance in ILIT – no risk of inclusion
- ✓ Don’t be your own trustee (no control)
- ✓ Terms of ILIT should complement estate plan – facilitate loaning/buying assets from estate to inject liquidity to pay the estate tax

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Irrevocable Life Insurance Trust (“ILIT”)

Funding the ILIT is treated as a gift to the beneficiaries

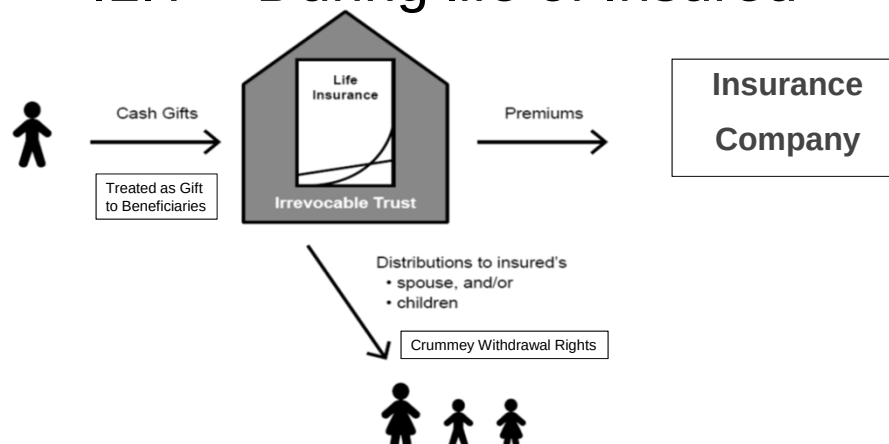
- ✓ Contribute income producing assets, to pay premium on the insurance policy from income earned
- ✓ Contribute \$ annually so the Trustee of the ILIT can pay the premium
 - *Crummey* withdrawal rights – track lapsing rights
 - Utilize annual gift tax exclusions
 - Premium financing

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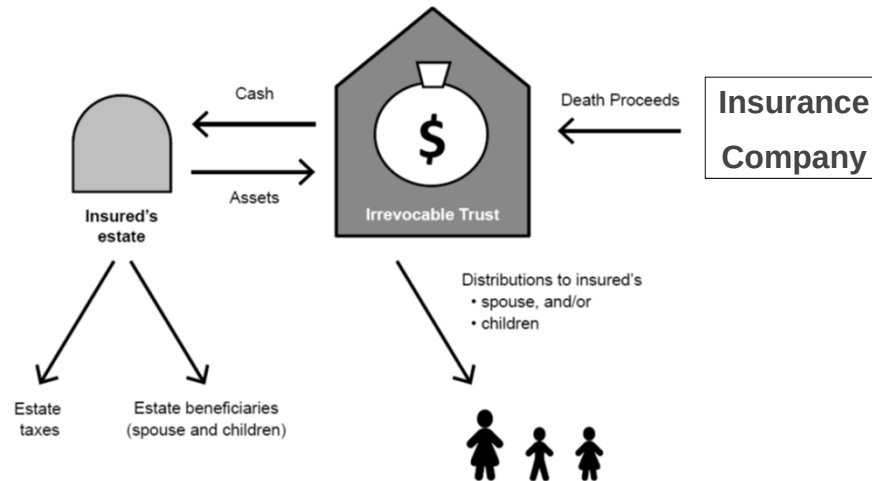
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ILIT – During life of Insured



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ILIT – After death of Insured



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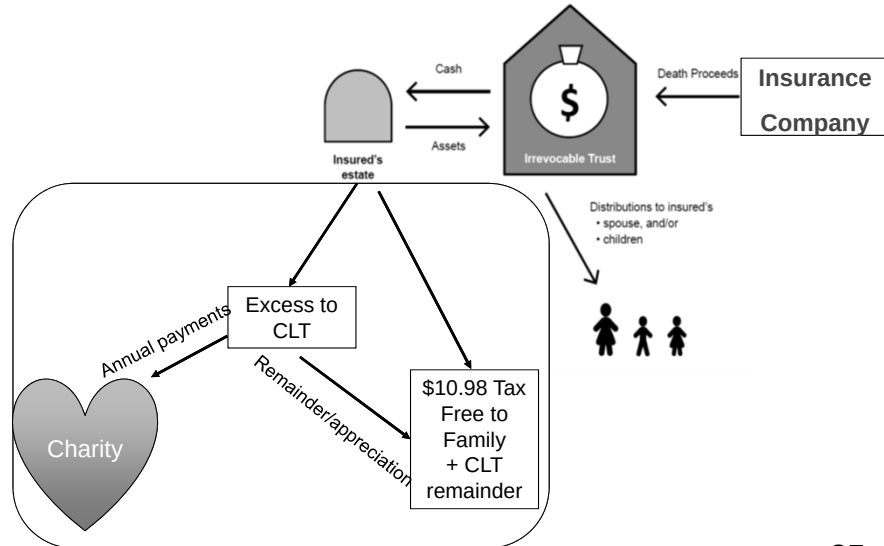
Charitable Lead Trust ("CLT") – the No Tax Plan

- ✓ Gift of lead interest to charity (for a term of years) with the remainder to pass to non-charitable beneficiaries (i.e. donor's family)
- ✓ Funded at death with excess over estate tax exemption by formula to "zero out" remainder interest and attain 100% charitable deduction
- ✓ All appreciation on the value of the assets passes estate tax free to beneficiaries
- ✓ Only cost is time – remainder beneficiaries must wait

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ILIT + CLT = NO IRS



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Strategies – First Right of Refusal

- ✓ During lifetime: Landowner can “sell” first right of refusal to a family member. It is important that consideration is given (ex: \$100) to make the contract valid.
- ✓ Then the first right should be recorded in the chain of title.
- ✓ The farm cannot be sold without first being offered to the holder of the first right.

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Strategies – Right to Purchase

- ✓ At death: You can leave the farm (or interests in LLE that owns the farm) equally to all children, requiring the off-farm children to offer their interests for sale to the on-farm child, and giving the on-farm the option to purchase same.

or

- ✓ Give successor right to purchase land from LLE and define terms.

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First Rights - the details

In either case, the document granting the first right must clearly identify:

- ✓ The purchase price
 - Match offer that's on the table
 - Appraisal – who selects? average?
 - “Sweetheart deal” – ok but TELL ALL
- ✓ Payment terms
 - ✓ Cash – lump sum
 - ✓ % down with delivery of low-interest * Promissory Note for the balance due

*Applicable Federal Rate, Long Term Inst., Dec., 2016 = 2.26%
WSJ Prime Dec. 2016= 3.5%

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First Rights- Fund With Insurance?

- ✓ Life insurance owned by the right-holder on the life of the landowner would help provide liquidity to accomplish the purchase in a lump sum.
- ✓ May want to require amount of insurance proceeds received to be paid over as the down payment, with a promissory note for balance in excess of insurance amount.

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Separate Land and Operations

- ✓ Treat assets differently during lifetime to make them easier to pass at death
- ✓ Survey and split off operations from bare land: bins, dryer, shop, barns, pasture
- ✓ Direct who gets these assets through lifetime gifts or at death:
 - ✓ Include in share of farm successor child
 - ✓ Offer for sale to non-related successor, on contract
 - ✓ Hold in trust to be available to a child until retirement, then distribute to grandchild?

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First Right- Non Related Successor

- ✓ Could give option to buy machinery, or “operating” assets to non related successor, for ex: long time employee, young farmer who won’t be inheriting an operation.
- ✓ Kids become landlords, and hand picked successor gets a chance to buy operating assets, perhaps at a discounted price, on installment over time.
- ✓ Take steps to ensure successor to operations has access to farm land, and outline formula to set price.

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Ideas & Strategies – Dynasty Trusts

- ✓ Keep the farm in trust for your children’s lifetimes – They never truly own it but receive its income. Provides asset protection.
- ✓ You pick the trustee who’ll have control, and you dictate continued management or sale of the farm in the trust agreement.
- ✓ Address cash rent if Trustee or a Beneficiary will be farming!
- ✓ Prevent land from being included in children’s gross estate for tax purposes.
 - ✓ (allocation of GST tax exemption – tricky).
- ✓ **You control ultimate disposition**

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What about your spouse?

- ✓ Risk of remarriage?
- ✓ Blended families need special attention!
- ✓ Unlimited marital deduction for gift and estate tax is powerful.
- ✓ Strike the proper balance between spouse & children.
- ✓ Marital Trust can achieve marital deduction, provide income to spouse, protect farm for ultimate distribution to children upon spouse's death.

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Ideas & Strategies – What about your House?

- ✓ Does a child get to live in your house?
- ✓ Do they have to pay rent?
- ✓ Do they have to buy it?
- ✓ Proverbial “money pit”
- ✓ Is your home, or a child's home owned by the farm corporation?
- ✓ Would a survey and parcel split make it easier to deal with the residence now, or in the future?

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Will the Kids Sell? What's your basis?

- ✓ Lifetime gifts remove appreciating assets from donor's estate resulting in estate tax savings.
- ✓ Lifetime gifts = "Carryover Basis" → Recipient receives your low basis in your land.
- ✓ Inherited assets = "Step up in Basis" → Recipient's basis is equal to fair market value on date of death.

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Will the Kids Sell? What's your basis?

- ✓ Lifetime gifting may not be advisable if there may be a future sale.
- ✓ Careful analysis of Estate and/or Inheritance Tax vs. Capital Gains Tax is necessary before gifting.
- ✓ In light of new tax laws, higher exemptions, returning gifts previously received to original donor may be best (wait... what!?).

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How's your Ground Titled? Maximize the Step Up!

- ✓ Step up in basis to fair market value at date of death is very powerful!
- ✓ Many farms are owned $\frac{1}{2}$ by husband (or his trust) and $\frac{1}{2}$ by wife (or her trust). That limits the step up in basis for the whole farm at the second death. Re-examine titling!
- ✓ Old A/B trust planning may have “trapped” an interest in ground in the first deceased spouse's credit shelter trust – may be able to get it out so that it receives a full step up at second death.

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Dust it off every 5 years

- Plan for now, based on today's circumstances.
- Original plan should allow as much flexibility as possible.
- Review when there's a change in the laws, or a change in circumstances.
- Adjust if necessary.

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Common Mistake #1

“I’m doing nothing because I’m worth less than \$5.49 million,” or the similar reasoning: “Because my wife and I are worth less than \$10.98 Million.”

1. You may have a false sense of security that their total assets are worth less than \$10.98 million. What's your farm ground really worth today? What are your neighbors selling for? Maybe you have a lurking tax problem.
2. Taxes may not be your biggest problem! Family farms are destroyed more often by feuding families than by taxes.

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Common Mistake #2

“I want to treat all my kids exactly the same.”

NO

#1 lesson Fair does not mean equal!

Change your mindset!

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Common Mistake #3

- “I plan to title my property jointly with my children and their spouses so that it automatically passes to them at death.”
 - Avoids probate administration.
 - Is it best to leave property outright to child? That puts your farm squarely in their estate in the event of divorce or other creditor problems.
 - Hey wait – you just made a taxable gift and need to report it on a gift tax return and the kids’ basis in 50% of the whole is carryover basis = FMV on date of gift without the benefit of step up.

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Common Mistake #4

- “I’m just going to copy what my neighbor did.”
 - No cookie-cutter approach.
 - Lifetime gifting may be great for some, and rotten for others.
 - This is very fact-sensitive.
 - Every family has different goals – for some, transferring farm ground to business entity first may be best way to achieve those goals.

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Why Use an Entity?

- ✓ Reduce liability exposure
- ✓ Payroll & income tax savings
- ✓ Take advantage of tax-free fringe benefits
- ✓ Take advantage of entity valuation discounts (*note proposed IRS Sec. 2704 Regulations*)
- ✓ Ease of transfer of ownership to next generation(s)

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Liability Reasons for Entity Selection

- Sole proprietors are subject to unlimited liability exposure
- Partnerships are even worse
 - Exposed to other partner issues
- Corporations limit exposure to investment
- LLC, LLP and LLLP are essentially the same as corporations
- LP are hybrid of each
- Trusts may or may not provide protection

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Which Entity? IT DEPENDS...

- Either a corporation or a Limited Liability Entity (“LLE”) is appropriate to limit liability to the owners
 - Needs bank account
 - Needs to be run like a business
 - Should have annual meetings and documentation
 - If not, then piercing the entity shield can and will occur

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Does a Limited Liability Land Holding Entity Make Sense?



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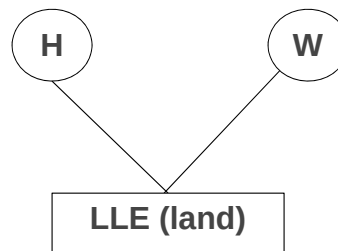
No Use of Entity = Disaster in Future

- Outright parcels to each child?
 - Difficult to equalize values (quality of parcels)
 - Greater production risks with fewer acres
 - Centralized management impeded
 - Spendthrift sale
- Undivided 1/3 interest to each child in each parcel?
 - No mechanism for agreeing on lease terms
 - No mechanism for agreeing on sale terms
 - Possible partition issues

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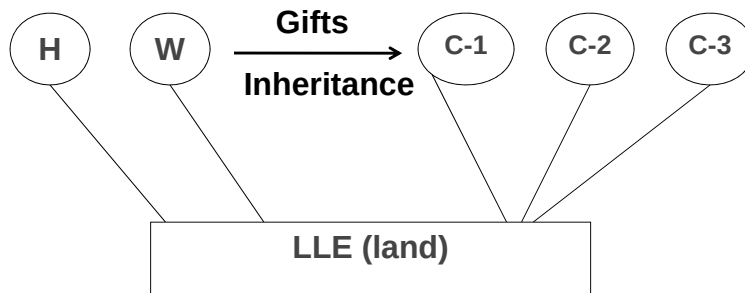
Limited Liability Entity (LLE) Illustration



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Limited Liability Entity (LLE) Illustration



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LLE Advantages

- Structure with most units non-voting - allow control to pass to selected Members
- Prefer “Manager-Managed” structure for centralized management
- Transfer Restrictions maintain continued desired ownership (aka Buy/Sell Provisions)
- Terms for buy-out of a member
 - Discount if Default triggers exit
 - (e.g. 70%-90% of defined per unit value)
 - Specify pmt. terms (long term /low interest rate to preserve entity cash flow and to discourage exit)

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LLE Advantages

- Facilitates gifts
 - Annual exclusion of \$14,000
 - Discounts for minority and lack of marketability
- Include binding mediation/arbitration language if disputes arise
- Formation/design of LLE document should force family communication pre-death
 - Require each child to invest cash at formation to create legal and emotional buy-in
 - 2nd generation part of negotiation of LLE terms

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LLE Disadvantages

- Fees
 - Legal costs of document drafting/planning
 - Appraisal fee for land valuation
 - Appraisal fee for discount valuation
- IRS valuation disputes
- Annual partnership tax return
 - Separate checking account
- Proper allocations of any cash distributions each year

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IRS Issues with LLEs

- Validity of marketability/minority discounts
 - Solution: Quality discount appraisal
- Retained income/distribution powers of senior generation and Sec. 2036 attack
 - Solution: Well-drafted LLE document
 - Solution: Bring 2nd gen. into voting/mgmt. group
 - Example: 3 voting units: 1 Dad, 1 Mom, 1 Jr.
- Actual cash distributions to senior generation are excessive
 - Solution: Farmers must distribute pro-rata and have the tax advisor help reconcile annually

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Use of entity for transfer of land – With Farming Successor

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Example 1: Farming Successor

Facts:

- Dad and Mom ages 75 and 73; 1,400 acres of land
- Net worth about \$13.5M (\$12M land + \$1.5M investments)
- 3 adult children, all married with children

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Example 1: Farming Successor (cont.)

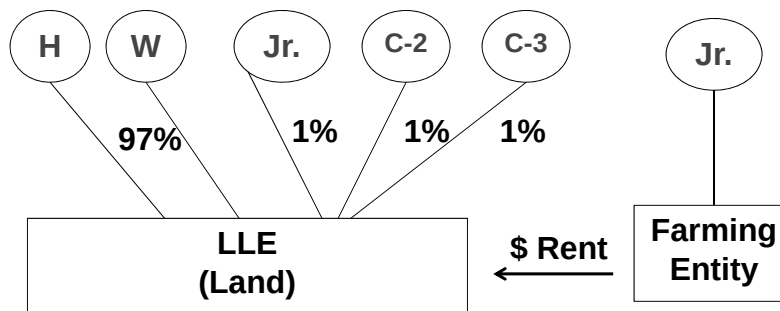
Facts:

- Active farm assets (inventory & machinery) owned by Jr.
- Dad and Mom are retired landlords
- Land is cash-leased to Jr.
- Objectives: Hold land together and assure Jr. has access to lease and buy land

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Example 1: Limited Liability Entity



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Example 1: Limited Liability Entity

Additional LLE document issues if tenant-successor:

- Define Jr. as having first right to lease and define terms
 - Example: 95% of county extension average lease rates
- Define right of Jr. to purchase land parcels from partnership (e.g., appraisal mechanism; seller-financed terms)
 - Don't just give him 1st right of refusal

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Ownership and Control

- Entity can (should) be structured with voting and non-voting interests
- Lifetime gifting or a coordinated estate plan provides control to farming successor through voting interests
- Off-farm heirs receiving non-voting interests
- “Fair” does not necessarily mean “equal” ownership among kids

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Decision Making:

- The holder of the voting interests controls the entity unless you provide otherwise
- Non-voting owners need not be excluded from all management
- Define “Big” decisions that may require majority, supermajority or unanimous approval of all non-voting interests, so everyone feels involved

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Examples of “Big” Decisions:

- ✓ Sell land
- ✓ Mortgage Land
- ✓ Drastically change use of land
- ✓ Setting cash rent rates if one owner is the tenant
(checks and balances) (include provision for
alternative method to set rent if/when can't agree)
- ✓ Liquidate the LLE and distribute land
- ✓ CAFO, Wind Farm, other “hot button” issues...

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Use of entity for transfer of land –

With NO Farming Successor

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Case Study : No Farming Successor

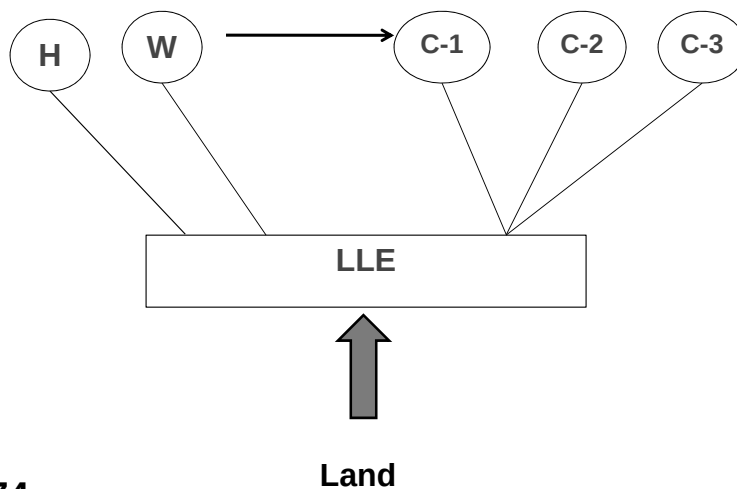
Facts:

- Same dollar facts as previous example
- 3 adult children, all married, none farming
- Land has been cash rented to unrelated tenant
- Objectives: Hold land together for children/grandchildren
 - Concerned about spendthrift lifestyle of Child 3 and husband

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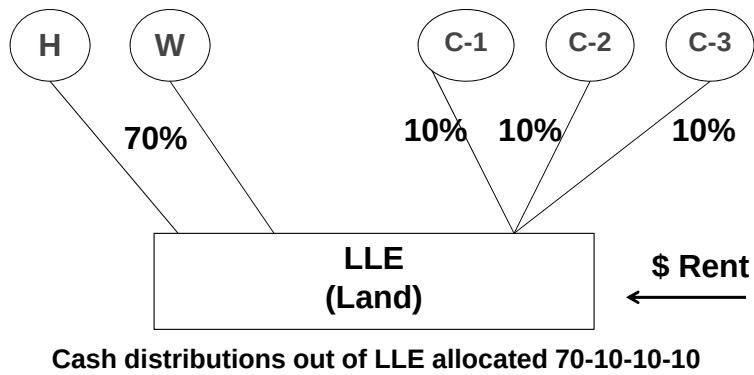
Limited Liability Entity (LLE) Illustration



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Case Study: Limited Liability Entity



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Which Entity Makes Sense for Operating Assets?

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INVOLVE YOUR CPA!

- Team approach is best.
- Entity selection includes consideration of:
 - Payroll taxes (15.3% FICA & Medicare)
 - Income taxes
 - Tax-Free Fringe Benefits
 - FSA Limits

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Smaller Operations

- For smaller operations with small children, it may make sense to use a C corporation due to:
 - Reduced payroll taxes
 - Commodity wages
 - Tax-free fringe benefits
 - Earned Income Tax Credit possibility
 - Fiscal year options

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Medium & Larger Operations

- Preference for entity selection is LLC due to:
 - Similar payroll tax savings to Corporation(s)
 - Flexibility in allocation of losses
 - Ease of transfer of assets in and out without tax cost
 - Step-up in basis in all assets owned by member at death
 - Legal protection same as corporation
 - Discounts for gift and estate tax planning
 - Ease of transfer of units to children and grandchildren

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Machinery Options

- Machinery may be held in separate LLC entity:
 - Liability protection
 - Get Trucks and Trailers away from other assets
 - Flexibility in Section 179
 - Have to watch income limitations
 - Step-up of basis upon member's death

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FSA Considerations

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Payment Limits

- Adjusted Gross Income limit is \$900,000
- Farm programs now have one \$125,000 limit per entity/person
 - Entity level first, then to owners to four levels
 - Partnerships and joint-ventures have no limit
- CRP retains the old \$50,000 limit

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Payment Limitation Illustration

Farm Entity Structure
General Partnership V. LL()

	Totals	25.00% Owner 1	25.00% Owner 2	25.00% Owner 3	25.00% Owner 4
General Partnership					
Total FSA Payment for entity	\$ 500,000				
General Partnership	\$ 500,000	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000
Joint venture	\$ 500,000	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000
C corporation	\$ 125,000	\$ 31,250	\$ 31,250	\$ 31,250	\$ 31,250
S corporation	\$ 125,000	\$ 31,250	\$ 31,250	\$ 31,250	\$ 31,250
Limited partnership	\$ 125,000	\$ 31,250	\$ 31,250	\$ 31,250	\$ 31,250
Limited liability company	\$ 125,000	\$ 31,250	\$ 31,250	\$ 31,250	\$ 31,250
Limited liability partnership	\$ 125,000	\$ 31,250	\$ 31,250	\$ 31,250	\$ 31,250
Limited limited liability partnership	\$ 125,000	\$ 31,250	\$ 31,250	\$ 31,250	\$ 31,250

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FSA Entity Planning

- If operation is fairly small, then about any entity will work
- If medium or larger size operation, need to maintain general partnership or joint venture structure
 - Each partner may be single member LLC to preserve liability protection
 - Utilize crop-share arrangement to create additional limit(s) if needed
 - Be careful of attribution of limits

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USE OF CORPORATE ENTITY TO TRANSITION OPERATING ASSETS TO NEXT GENERATION

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Forming a Farm Corporation

- Clean cut-off: End all farm income and expense activity of farm proprietorship checking account; start corporate checking account activity next day
- Prepare bill of sale to transfer to corporation
 - Unsold inventory (grain, livestock)
 - Accounts receivable (sold, but deferred pmt.)
 - Other assets (breeding stock, M&E)
 - Never land!

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Case Study: Active Operations to Successor

Facts:

- Dad, age 65, operates as Schedule F proprietor
 - Owns grain, machinery, and land
 - Objectives: Retire in several years, liquidate grain, and sell machinery to son
 - Est. grain value: \$800,000; machinery \$500,000
- Jr., age 34, farms with dad, but also files as proprietor
 - Owns his share of grain, some machinery (total value \$200K)
 - Buying 160 acres on contract from grandmother

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Case Study: Active Operations to Successor

Plan A: Liquidate grain/lease & sell machinery to Jr.

<u>Asset</u>	Federal tax		<u>Total</u>
	<u>Income Tax</u> <u>(35% blended)</u>	<u>Soc. Sec. Tax</u> <u>(9% blended)</u>	
\$800K grain	\$280K	\$72K	\$352K
\$500K machinery	\$175K	\$ -	\$175K
\$1.3M	\$455K	\$72K	\$527K

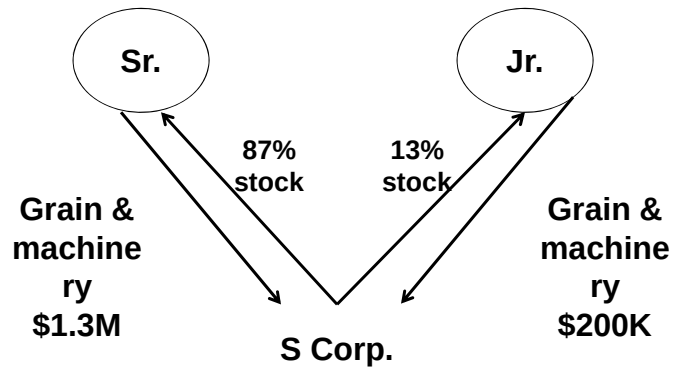
41% Combined Tax

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Case Study: Active Operations to Successor

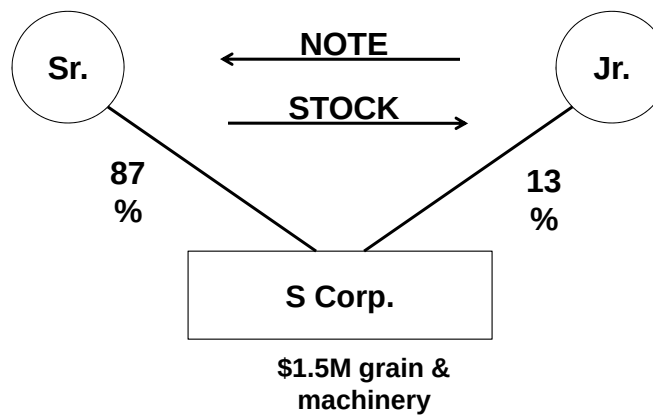
Plan B: Use an Entity to Transition Operating Assets



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Case Study: Active Operations to Successor



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Case Study: Active Operations to Successor

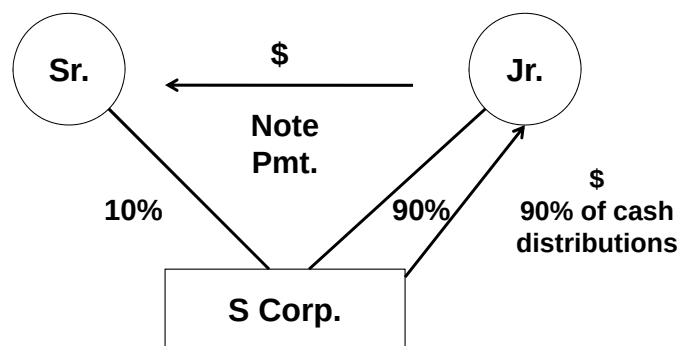
Strategies with corporate entity:

- Capital gain & no Self Employment tax to Sr. on stock sale
 - Cuts effective tax rate from 41% to 20% (or 15% or 0%)
 - Spread gain over term of note (e.g., 10 yrs.)
- Sell stock in minority increments with discounts
- Consider reorganizing into voting & non-voting shares
 - Sr. can dispose of most stock, but retain control if desired

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Case Study: Active Operations to Successor



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Case Study: Summary

- Entity sells Sr.'s grain, but offsets income with ongoing farm input expenses & prepaids
- Jr. does not get fresh depreciation on machinery
 - Bought nondeductible stock, but at a discount
 - Jr. gets favorable long-term financing from Sr.
 - Jr. has cash method farm expenses to continue tax deferral
- S corp. distinguishes salaries vs. rent vs. owner distributions

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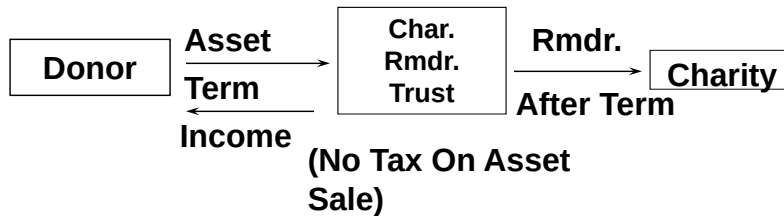
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USE A CHARITABLE REMAINDER TRUST TO DISPOSE OF GRAIN AND EQUIPMENT – NO SUCCESSOR

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Charitable Remainder Trusts



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Charitable Remainder Trusts

Advantages

- Defer income up to a 20-year term
 - Lower federal income tax rates
 - No SE Soc. Sec. Tax
- Commodity can be sold by Trust with no tax
- Less federal tax; trades off with residual to charity
 - 10% minimum net present value to charity

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CRT Example

- 10 year term, annual payout
- \$500,000 funding
- Annual payout @ year-end
 - December, 2016 IRS Interest Rate
1.8%
- Payout amount \$49,570
- Charitable remainder 10.008%

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Dealing with Land Trapped in a C Corporation

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C Corp. with Land Inside

- Liquidate grain/livestock inventory, and equipment as a C corp.
 - Use C corp. lower tax rates
 - Possible offsetting deductions for past underpaid services to employee-shareholders?
- Convert to S corp. status after disposition of all operating assets
 - S corp. holds land only; becomes landlord entity
 - Net rent income flows through to corp. owners
 - But S corp. must be “active” (crop share rents) or pay out its prior C Corp. accumulated earnings as a dividend before S election

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C Corp. with Land Inside

- Wait out Built In Gains Period (10 yr?) (5 yr?)
- DIE
- After death of owner, S corp stock gets step-up in basis
- Heirs sell land
 - Creates additional gain to add to stock basis
- Heirs then liquidate **in year of sale**
- Result equals no capital gains tax due (or even a small loss)

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Questions?

<http://dobbslegal.com>

(765) 470-7090

polly@dobbslegal.com

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ESTATE PLANNING INVENTORY

I. FAMILY DATA

A. Yourself

Name _____

Birth Date _____ Age _____

Social Security Number _____

Street Address _____

City, State, Zip _____

County of Residence _____

Employer _____

Business/Profession _____

Home Phone _____ Business Phone _____

Home Fax _____ Business Fax _____

Mobile Phone _____

U.S. Citizen Yes____ No____

E-Mail _____

B. Your Spouse

Name _____

Birth Date _____ Age _____

Social Security Number _____

Employer _____

Business/Profession _____

Business Phone _____ Mobile Phone _____

Business Fax _____

U.S. Citizen Yes____ No____

E-Mail _____



C. Your Children and Other Heirs

Please provide pertinent information for your children (adopted or natural), grandchildren and other heirs to whom property may be devised.

1.	Name:	DOB/Age	
	Address:	Gender	M____ F____
		Relationship	
	Phone:	Mobile:	Married? Yes____ No____
	SSN:	Children?	Yes____ No____
		Number	_____
2.	Name:	DOB/Age	
	Address:	Gender	M____ F____
		Relationship	
	Phone:	Mobile:	Married? Yes____ No____
	SSN:	Children?	Yes____ No____
		Number	_____
3.	Name:	DOB/Age	
	Address:	Gender	M____ F____
		Relationship	
	Phone:	Mobile:	Married? Yes____ No____
	SSN:	Children?	Yes____ No____
		Number	_____
4.	Name:	DOB/Age	
	Address:	Gender	M____ F____
		Relationship	
	Phone:	Mobile:	Married? Yes____ No____
	SSN:	Children?	Yes____ No____
		Number	_____



5. Name: _____ DOB/Age _____
Address: _____ Gender M____ F____
Relationship _____
Phone: _____ Mobile: _____ Married? Yes____ No____
SSN: _____ Children? Yes____ No____
Number _____

D. Prior Martial Status. Did you or your spouse have a prior marriage?

1. If so, when was the marriage terminated? _____
2. Children of prior marriages? _____

3. Do you wish to include these children in your will, if you have not already done so? _____

E. Prenuptial Agreement. Did you and your spouse enter into a prenuptial or postnuptial agreement? Yes____ No____

F. Health and related Obligations. Please describe any present or potential health problems or support obligations for any family or non-family members.

II. WILLS

A. Prior/Current Estate Plan. Do you at present have a Will or Trust in existence? If yes, please provide us with copies. Yes____ No____

B. Religious Beliefs. Do you have any religious beliefs that should be discussed as part of your estate planning? Yes____ No____

C. Charitable Gifts.

1. Do you want to make a gift or bequest to charity? Yes____ No____
2. If you desire to make a gift or bequest to charity, is your desire to Yes____ No____



make a gift or bequest to the charity only if certain persons (for example, family members) do not survive you?

3. If yes, please describe:

	<u>Name and Address</u>	<u>Property Type</u>	<u>Source/Location</u>	<u>Amount</u>
a.	_____	_____	_____	_____

b.	_____	_____	_____	_____

c.	_____	_____	_____	_____

D. 1. Do you want to leave anything to **persons outside your family** (such as close friends or neighbors)?

Yes____ No____

2. If yes, please describe:

	<u>Name and Address</u>	<u>Property Type</u>	<u>Source/Location</u>	<u>Amount</u>
a.	_____	_____	_____	_____

b.	_____	_____	_____	_____

c.	_____	_____	_____	_____



E. 1. Do you desire to leave any **special articles or sums of money** to any members of your family? Yes____ No____

2. If yes, please describe:

	<u>Name and Address</u>	<u>Property Type</u>	<u>Source/Location</u>	<u>Amount</u>
a.	_____ _____ _____	_____	_____	_____
b.	_____ _____ _____	_____	_____	_____
c.	_____ _____ _____	_____	_____	_____

F. In what manner do you want to dispose of the remainder of your estate? (Check one)

1. Outright to spouse, if living or if not, in trust for children? _____
2. Outright to spouse, if living or if not, outright to children? _____
3. Outright to spouse? _____
4. In trust for spouse? _____
5. Outright to children? _____
6. In trust for children? _____
7. In trust for spouse and children? _____
8. Other (describe)? _____



- G. If you desire to leave assets in trust for your **spouse**, knowing that we will discuss this during our meeting, describe your goals for using the Trust for your spouse.

- H. If you desire to leave assets in trust for your **children**, knowing that we will discuss this during our meeting, describe your goals for using the Trust for your children (e.g. to pay for college, to start a business, health concerns, etc.).

III. RESPONSIBLE PERSONS-FIDUCIARIES

A. Guardian for Minor Children

Name, address and relationship of person(s) you would like to serve as **guardian** of minor children.

	<u>Primary Choice</u>		<u>Contingent Choice</u>
Name		Name	
Address		Address	
Relationship		Relationship	
Home Phone		Home Phone	

- B. **Personal Representative/Executor.** Who would you like to serve as **Personal Representative** of your estate? A Personal Representative, commonly referred to as an Executor, and is the person responsible for collecting all assets, paying all debts, filing any death tax returns and filing your final income tax return. The Personal Representative then distributes your assets in accordance with the terms of your Will. Many of the duties of a Personal Representative are listed at the back of this Estate Planning Inventory.



Primary Choice

Contingent Choice

Name

Name

Address

Address

Relationship

Relationship

Home Phone

Home Phone

C. Trustee.

1. Name, Address and Person(s) you would like to serve as **trustee** of any Trust for the benefit of any of your heirs.

Primary Choice

Contingent Choice

Name

Name

Address

Address

Relationship

Relationship

Home Phone

Home Phone

2. If a corporate trustee is needed, do you have a preference as to which financial institution should serve as trustee?

Yes____ No____

If yes, please provide the following information:

Name

Address

Trust Officer (if known)

Business Phone

IV. INCOME AND OBLIGATIONS

- A.** Your present annual income \$ _____
Your spouse's present annual income \$ _____

- B.** Please provide a copy of your most recent income tax return.



C. Estate and Gift Taxes.

- 1(a). Have you or your spouse made any gifts in excess of \$3,000 to any one individual in any one calendar year prior to 1982? Yes____ No____
- 1(b). Have you or your spouse made any gifts in excess of \$10,000 to any one individual in any calendar year between 1982 – 2001? Yes____ No____
- 1(c). Have you or your spouse made any gifts in excess of \$11,000 to any one individual in any calendar year between 2002 – 2005? Yes____ No____
- 1(d). Have you or your spouse made any gifts in excess of \$12,000 to any one individual in any calendar year between 2006 - 2008? Yes____ No____
- 1(e). Have you or your spouse made any gifts in excess of \$13,000 to any one individual in any calendar year in 2009-2012? Yes____ No____
- 1(f). Have you or your spouse made any gifts in excess of \$14,000 to any one individual on or after January 1, 2013? Yes____ No____
2. If you answered 'yes' to any question in 1. above, did you file gift tax returns? Yes____ No____
3. If you filed gift tax returns, please provide copies.
4. If you made gifts in excess of the limits provided above, but did not file gift tax returns, in what amounts for each year?

<u>Year</u>	<u>Amounts</u>	<u>Year</u>	<u>Amounts</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

- D. Assets.** Do you have a right under someone else's will or trust to direct, during your lifetime or in your will, the person who may receive the property or income from such will or trust? Yes____ No____

V. ANCILLARY DOCUMENTS

- A. Financial Durable Power of Attorney.** Do you want to give a power of attorney to another person to act on your behalf? Yes____
No____

If yes, do you want it effective immediately or only upon your disability? Immediately ____

Upon Disability ____

For You:



Primary Choice

Name _____
Address _____

Relationship _____
Home Phone _____

Contingent Choice

Name _____
Address _____

Relationship _____
Home Phone _____

For Your Spouse:

Primary Choice

Name _____
Address _____

Relationship _____
Home Phone _____

Contingent Choice

Name _____
Address _____

Relationship _____
Home Phone _____

- B. Health Care Power of Attorney.** Do you want to designate another person as your health care representative to make health care decisions on your behalf in the event you become incapable of making such decisions yourself?

Yes _____
No _____

For You:

Primary Choice

Name _____
Address _____

Relationship _____
Home Phone _____

Contingent Choice

Name _____
Address _____

Relationship _____
Home Phone _____



For Your Spouse:

Primary Choice

Contingent Choice

Name _____
Address _____
Relationship _____
Home Phone _____

Name _____
Address _____
Relationship _____
Home Phone _____

- C. Living Will Declarations.** Do you want to consider making a Living Will? A Living Will is a document in which you state that you do not want your life to be prolonged by life-support machines under certain circumstances and also allows for a decision regarding artificially supplied nutrition and hydration.

Yes _____

No _____

- D. Do Not Resuscitate Declaration.** Do you have a terminal condition, and if so do you want to consider executing a do not resuscitate order?

Yes _____

No _____

- E. Anatomical Gifts.** Do you want to consider being an organ donor?

Yes _____

No _____

If yes, do you want to limit the extent of the use of your body?

Yes _____

No _____

If yes, please describe your desired limitations.

- F. Funeral Planning Declaration.** Would you like to complete a legal document regarding your specific wishes concerning the disposition of your remains, funeral services and ceremony?

Yes _____ No _____

- G. HIPAA Authorization.** Do you consent to the release of your private medical records to your named fiduciaries?

Yes _____

No _____

VI. MISCELLANEOUS

- A. Living Trusts.** Do you want to discuss the advantages and disadvantages of a Revocable or Living Trust?

Yes _____ No _____

- B.** What arrangements have you made for burial costs?



- C. Are you the owner of one or more IRC § 529 College Savings Accounts? Yes____ No____
- D. Are you the custodian of one or more Uniform Transfers to Minors Accounts (UTMA/UGMA)? Yes____ No____
- E. Do you have long term care insurance? Yes____ No____
- a. If not, are you interested in learning more about long term care insurance? Yes____ No____
- F. Do you want our firm to represent both spouses in your estate planning or do you prefer separate representation for each spouse? (This will be explained at conference) Yes____ No____
- G. Are you entitled to Veterans benefits? Yes____ No____
- H. Have you and your spouse ever lived in any of the following community property states: Arizona, California, Idaho, Louisiana, New Mexico, Nevada, Texas, Washington, Wisconsin or Alaska? Yes____ No____

VII. ASSETS & LIABILITIES

If you already have a net worth financial statement that incorporates the information requested below (ownership, value and a sufficient description), you can attach a copy rather than completing the remainder of this Inventory Outline. By providing this information, we will consider you to also be certifying to us, under penalty of perjury, that the information provided is true, correct and complete, to the best of your knowledge.

In this second part of the Outline, please list the value or Estimated Fair Market Value of your assets under the appropriate ownership column, which is appropriately designated (H) for husband, (J) for joint ownership (in both husband's and wife's name), and (W) for wife. **If there is debt associated with an asset, list the debt separately under "Personal Liabilities" below.**

There is a threefold purpose for this part of the Outline. First, this gives the Personal Representative a starting point for locating and collecting assets if he or she is not familiar with your finances. Second, there is less chance of assets being overlooked or lost in the beginning stages of administration. Third, and most importantly, there are certain tax advantages that can be used in order to minimize Estate Taxes; however, their availability depends upon the value and ownership of the assets.



A. Real Estate	Value	Ownership (H/W/J)
1. Primary Residence _____ _____	_____	_____
2. Other _____ _____	_____	_____
3. Other _____ _____	_____	_____

B. Business Interests	Type (SP, P, LLC, S-Corp, C-Corp, LLP, Other)	Value	Ownership (H/W/J)
1. Business Name, Address and Description _____ _____ _____ _____		_____	_____

Business Interests - Continued	Type (SP, P, LLC, S-Corp, C-Corp, LLP, Other)	Value	Ownership (H/W/J)
2. Business Name, Address and Description _____ _____ _____ _____		_____	_____
3. Business Name, Address and Description _____ _____ _____ _____		_____	_____



C. Bank Accounts	Type (Checking, Savings, CD, etc.)	Value	Ownership (H/W/J)
1. Name of Financial Institution			
2. Name of Financial Institution			
3. Name of Financial Institution			
4. Name of Financial Institution			

D. Investment Accounts	Type (Bonds, stocks, etc.)	Value	Ownership (H/W/J)
1. Name of Financial Institution			
2. Name of Financial Institution			



3. Name of Financial Institution

4. Name of Financial Institution

5. Name of Financial Institution

E.

Retirement Accounts (if asset passes by beneficiary designation, please list the persons currently named as primary and contingent beneficiary)		Type (401(k), 403(b), profit sharing, or pension plans, traditional or Roth IRAs, annuities, PERF acct., deferred compensation, etc.)	Value	Ownership (H/W/J)
1.	Name of Financial Institution/ Primary and Contingent Beneficiaries			
2.	Name of Financial Institution/ Primary and Contingent Beneficiaries			



3. Name of Financial Institution/
Primary **and** Contingent Beneficiaries _____

4. Name of Financial Institution/
Primary **and** Contingent Beneficiaries _____

F.	Other Investments or Assets not listed elsewhere	Type (stock options, bonds, etc.)	Value	Ownership (H/W/J)
1.	_____	_____	_____	_____
2.	_____	_____	_____	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

G. Life Insurance

	Issuing Company	Owner	Insured	Primary and Contingent Beneficiaries	Face Value	Cash Value
1.	_____	_____	_____	_____	\$ _____	\$ _____
2.	_____	_____	_____	_____	\$ _____	\$ _____
3.	_____	_____	_____	_____	\$ _____	\$ _____
4.	_____	_____	_____	_____	\$ _____	\$ _____



H. Miscellaneous

		Value	Ownership (H/W/J)
1.	Automobiles, boats, motorcycles, etc.		
a.	_____	_____	_____
b.	_____	_____	_____
c.	_____	_____	_____
2.	Trust Interests (give brief description)		
3.	Possible future inheritance		

I.	Description of Personal Liabilities	Amount	Ownership (H/W/J)
1.	_____	_____	_____
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____
	Description of Personal Liabilities (Cont.)	Amount	Ownership (H/W/J)
5.	_____	_____	_____
6.	_____	_____	_____
7.	_____	_____	_____
8.	_____	_____	_____
9.	_____	_____	_____



10. _____
11. _____

J. Contingent Liabilities -

Do you have any contingent liabilities (such as a personal guaranty or otherwise)?

Yes/No

If yes, please explain:



DUTIES OF PERSONAL REPRESENTATIVE (EXECUTOR)

1. Locate the will. Confer with family members and with the lawyer who will serve as attorney for the estate.
2. Arrange with the attorney for probate of the will. If the will is not self-proved, locate the witnesses who can testify to the will's validity. Receive court authority to act as executor.
3. Seek out and list the assets of the estate, including cash, personal and household items, stocks and bonds, and other property. File claims for veterans' and Social Security benefits. Notify life insurance companies of the death.
4. Take custody or control of estate/probate assets. Make sure property is adequately insured. Check leases and mortgages.
5. Determine the family's immediate requirements and make arrangements for support and maintenance payments to dependents while the estate is being settled.
6. File a final income tax return for the deceased and prepare for audit of income tax returns filed for the three years preceding death. Choose a "tax year" for the estate and file the estate's income tax returns as required.
7. Publish a notice to creditors (a requirement in most states) and pay all valid debts of the deceased, taking care to defend the estate against doubtful or exorbitant claims.
8. Collect all sums owed to the estate. Arrange to have the attorney for the estate take legal action, if need be, to collect any substantial unpaid claims or pursue any lawsuits.
9. Gather data on jointly-owned property, life insurance payable directly to beneficiaries, and other assets which are not governed by the terms of the will but may be part of the taxable estate.
10. Manage estate assets. Carry out the will's instructions concerning the sale or retention of a farm or business, or determine what policy will best protect estate values.
11. Assemble detailed valuations of all assets, seeking expert appraisals as required. Prepare "alternate" valuations as of a date that is six months after the date of death for optional use on an estate tax return.
12. Decide which assets must be sold to pay taxes and expenses, preferably retaining those most suitable for trust funds provided for in the will. Consider market conditions and tax factors in deciding what to sell and when.
13. Keep detailed records of estate income and outflow and of all transactions.
14. File a federal estate tax return within nine months of the date of death, if the total value of the estate exceeds \$5,000,000 in 2011 and thereafter. File state death tax returns as required.
15. Distribute assets to the trustee, if there are to be trust funds, and to the beneficiaries as the will directs.
16. Prepare a detailed accounting for submission to the beneficiaries or the court, depending on state requirements.



KEY PERSONAL PAPERS

Description	Location
Certificates: Birth	
Adoption	
Baptismal	
Marriage	
Certificate(s) of Titles for Automobiles	
Will: original copy	
Brokerage Statements	
Income Tax Returns	
Gift Tax Returns	
Household Inventory	
Military Service Records	
Social Security Number and Cards	
Employment Records	
Educational Records (diplomas, transcripts)	
Medical and Health Records (medication, vaccinations)	
Cemetery Site Deed	
Divorce Decree or Separation Agreement	
Prenuptial Agreement	
Passport	
Citizenship Papers	
Organizations: Professional	
Religious	
Union	
Other	
Safe Deposit Box	



**Client's Confidential Data Bank
KEY ADVISORS**

Advisor	Name	Address	Phone Number
Attorney			
Accountant			
Banker			
Stockbroker			
Insurance Agent			



**KEY ADVISORS
(continued)**

Undertaker

_____	_____	_____

Clergyman

_____	_____	_____

Employer
and/or
Business
Associates

_____	_____	_____

Other:

_____	_____	_____

Husband's
Physician

_____	_____	_____

Wife's
Physician

_____	_____	_____



Are You Ready for a Farm Succession?

Preparation is the key to a successful farm succession. Waiting for a life-changing event may leave your farm – and your family – vulnerable

Documents

Have you prepared your succession documents? Use this checklist to identify the documents you have which are up-to-date and reflect your current goals and concerns for your family and your company:

- ☐ Will
- ☐ Revocable Trust
- ☐ Durable Power of Attorney
- ☐ Written Operating Agreement (if my farm is an LLC)
- ☐ Written Partnership Agreement (if my farm is a partnership)
- ☐ Bylaws (if my farm is a corporation)
- ☐ Shareholders Agreement or Buy/Sell Agreement

Essential Questions

Do your succession documents address the essential questions of a farm succession? Use this list to identify whether you have **written, legally binding** documents which answer the following questions to your satisfaction.

Who receives my ownership in the farm if I, or one of my partners, die while owning and/or operating the farm?

Yes ☐ No ☐

Is there sufficient 'key person' life insurance in place to help the farm through a transition if I or a partner were to die?

Yes ☐ No ☐

Is there sufficient life insurance in place for the specific purpose of purchasing the shares of a deceased partner (and providing for the family of the deceased partner) if I or a partner were to die?

Yes ☐ No ☐

If I, or one of my partners, becomes disabled or incapacitated for a long period while owning and/or operating part or all of the farm, who will gain control of the farm and the stock/ownership interest?

Yes ☐ No ☐

If I, or one of my partners, becomes insolvent, bankrupt or divorced and stands to lose an ownership interest/stock in my farm to a creditor or divorcing spouse, do the remaining partners have the right to reacquire that ownership interest/stock?

Yes ☐ No ☐

Who will take my place at the farm if I die or become disabled?

Yes ☐ No ☐

If you answered "No" to any of these questions, you may need to start or review your farm succession plan. For more information on farm succession planning or estate planning, contact Polly Dobbs by email at polly@dobbslegal.com or by phone at 765-470-7090.

Dobbs Legal Group, LLC.

Are You Ready for a Farm Succession?

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Down on the Family Farm: How to avoid five common estate planning mistakes

By Polly J. Dobbs, Attorney, Dobbs Legal Group, LLC (Updated February 2016)

I'm a farm girl and an estate planning attorney. So naturally, I'm passionate about helping farm families efficiently transfer ownership of their land, buildings and equipment to the next generation.

Too often I sit down with farming clients who misunderstand the estate planning process. Their misunderstanding is usually the result of overhearing inaccurate information. Perhaps they've heard a couple neighbors discussing death taxes and loopholes at the grain elevator and pick up some more chatter at the local diner. This secondhand advice, while perhaps well-meaning, will inevitably become their estate planning downfall.

Here, we explore five common examples of estate-planning-gone-wrong for farmers.

1. **"I'm going to give away the remainder interest, but hold on to the life estate to retain control and income stream."**

The only goal this plan accomplishes is avoiding probate administration. Retained interests such as this cause 100 percent of the value to be taxable upon the death of the life estate holder under the Federal Estate Tax. This is not a good plan for someone trying to minimize death taxes.

2. **"I plan to title my property jointly with my children and their spouses so that it automatically passes to them at death."**

Yes, this avoids probate; however, it also puts the farm squarely within the marital estate of your child's potential future divorce. Leaving your child outright ownership could make the family farm susceptible to claims by the child's creditors and subject to division by a divorce court in the event of that child's failed marriage. Consider leaving your child's inheritance in a trust or creating an LLC to achieve goals of keeping the farm within the family.

3. **"I'm doing nothing because I'm worth less than \$5 million," or the similar reasoning: "Because the wife and I are worth less than \$10 million."**

Most farmers are land rich and cash poor with little to no estate planning in place. This situation is a ticking time bomb that will explode into a liquidity problem after death when it's time to pay potential state and Federal death taxes. Many farmers keep a "dirt savings account" and do not have any other savings or investment accounts. As the value per acre of our tillable land continues to increase, the bottom line on the farmers' balance sheets skyrockets, and most aren't aware of the tax problems lurking at their death.

Farmers are generally familiar with the Federal Estate Tax; there are numerous articles addressing this topic in farm journals. Our current federal laws allow each decedent to pass \$5.45 million of assets free from Estate Tax; a married couple can pass \$10.9 million. However, state death taxes deserve careful consideration. Not every state taxes property transferred by a decedent. For example, Indiana has a new law that repealed its inheritance tax for every decedent who dies on or after January 1, 2013. However, some states impose significant taxes at death, so it is a wise idea for each farmer to find out how his own state's laws affect his estate plan.

Also, many farmers have a false sense of security and think they don't have a tax issue because their farm is worth less than \$5.45 million. However, if his neighbors are selling farm ground for over \$14,000 an acre, that farmer may be worth several million dollars more than he thinks, and his heirs will owe significant taxes at his death. It's crucial to take a look at a farmer's accurate balance sheet given today's value of farm land when discussing taxes.



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4. “I want to treat all my kids exactly the same.”

Many times, estate planning isn't about tax planning – it's about family dynamics. A farmer is lucky if there is one child who wants to return home (or stay home), but it's more likely that a farmer has at least three children. Treating the children fairly does not necessarily mean treating them equally.

A typical will would leave all assets equally to the children which, without planning, would yield “tenants in common” ownership. A series of complex questions might arise from this situation, though. Does the child who actively farms have to pay cash rent to the non-farming siblings? Would the majority of the non-farming siblings out-vote or second guess each decision made and question the yields acquired by the on-farm sibling? The one farming child may also wish to buy out the other siblings' share of the farm, but that could easily become a huge burden on the farming child. In no time, these scenarios would lead to a family feud.

If one child is going to be managing the family farm, there are methods of planning that allow that child to have control and be provided with a reasonable salary for services rendered. After paying the child a manager's salary, net profits can be divided equally among all children. A farmer's estate plan should be drafted so that non-farm children cannot second guess the on-farm child's daily decisions. Large decisions can require supermajority or even unanimous agreement, but daily decisions can be left to the one who's in the tractor cab.

5. “I'm just going to copy what my neighbor did.”

There is no cookie cutter approach to estate planning, especially not for farmers. For some farmers, it might make sense to do some gifting during their lifetime in order to reduce the size of the taxable estate at death. This is an especially attractive option given the current Federal Estate Tax laws that provide each individual with a \$5.45 million unified exemption, which can be used during lifetime or at death.

For other farmers, lifetime gifting might not be advisable. If the next generation will likely sell the farm, then their “basis” in the property becomes very important. Careful analysis is necessary to determine whether the Federal Estate and/or state death taxes saved by lifetime gifting are greater than the capital gains tax triggered by an after-death sale. It's best if the estate planning attorney, accountant and financial planner are all involved in such analysis.

It may also make sense to transfer the farm ground to a business entity first, such as an LLC, so that certain transfer restrictions can be put in place to accomplish the farmer's goals. Some goals may include restricting property ownership to blood descendants; preventing or restricting future development of tillable acreage or historic green spaces; and providing protections in the event of a child's divorce.

Estate planning is important for all families and business owners, but it is crucial for farmers.

Raised on a farm herself, Dobbs Legal Group, LLC owner and attorney, Polly J. Dobbs, helps farmers create holistic succession plans that are tax efficient and provide the desired succession of control to the next generation while treating all family members fairly. If you have questions about the role estate planning plays in your family farm, please contact her at 765-470-7090, polly@dobbslegal.com.

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Taxpayer Relief Act a 'Game Changer'



By Polly J. Dobbs
Attorney, Dobbs Legal Group, LLC
(Updated February, 2016)

[Make sure your estate plan doesn't cause a tax headache.](#)

The American Tax Payer Relief Act of 2012 was a game changer for many farmers. As a result, your existing estate plan may now be obsolete.

In a nutshell, upon death, you may pass up to \$5.45 million worth of assets free from federal estate tax. A married couple can pass \$10.9 million.

You might think you don't have a tax problem because your farm is worth less than \$10.9 million. Due to the recent run up in land values, however, it doesn't take a huge number of acres to pass the \$10.9 million threshold. If land is valued at \$10,000 per acre, it takes just 1,086 acres to reach the threshold. At \$12,000 per acre, it takes just 905 acres. With inflated land values, the \$5.45 million estate tax exemption doesn't go all that far. State death taxes also deserve careful consideration since some states impose significant taxes at death.

[For federal tax purposes, you may give away up to \\$5.45 million of your assets without having to pay federal gift tax during your lifetime.](#)

That would reduce the amount of your exemption remaining at death. The annual gift tax exclusion is currently \$14,000, which won't reduce your \$5.45 million gift tax exclusion or be required to pay gift taxes.

For estates or gifts in excess of this exemption, the maximum tax rate is 40%. As always, there is an unlimited marital deduction.

Also, portability of unused exemption to the surviving spouse is available. That means if your spouse dies first, leaving all assets to you, the unlimited marital deduction requires no tax at the first death and your spouse's \$5.45 million may be "ported" to you. That shelters \$10.9 million of your assets from tax when they pass to your children at your death.

These exemptions are indexed for inflation. The deceased spouse's unused exemption that is "ported" to the survivor will not receive future inflation adjustments, but the survivor's exemption will continue to increase with inflation.

Before portability, estate planners took great pains to help clients divide ownership of their assets, so that each spouse owned enough property to fully utilize their estate tax exemption. That is no longer necessary. In fact, it may be more beneficial to make sure all assets are owned by the surviving spouse, in order to get the highest step-up in basis at the second death.

If your farm is worth more than \$10.9 million, you and your spouse need to think about how your heirs will pay the 40% federal estate tax. The special use valuation under Internal Revenue Code § 2032A may allow the value of your farm to be reduced for estate tax purposes.

You should review the special use valuation metrics on a frequent basis and make adjustments to bring your estate into compliance. Also, your succession plan should be structured to make sure your heirs meet the strict compliance of the special use valuation rules after your death.

[Life insurance can provide liquidity to pay the estate tax.](#)

However, it is important for the policy to be properly owned so the death benefit is not included in your gross estate, which would only exacerbate your tax problem.

You could create an irrevocable life insurance trust (ILIT) to be the beneficiary of the life insurance policy, which would keep the insurance proceeds from being included in your estate. The ILIT can purchase assets from your estate for cash or loan money to your estate to pay the tax.

The beneficiaries of your ILIT and estate are typically identical, so shifting assets between the two doesn't change their ultimate disposition.

Proper use of withdrawal rights can allow your annual contributions to the ILIT for premium payment purposes to qualify for annual tax exclusions.

If you can't fathom one more trust as a part of your estate plan, then direct ownership of the life insurance policy by your adult children can accomplish the same estate tax exclusion. But think carefully about the associated risks it brings, such as your child's divorce, failure to pay the premium and refusing to use the proceeds to pay the tax after your death.

[A member of the Farm Journal Legacy Project Advisory Team, attorney Polly Dobbs is part of a seven-generation farm family. She understands the unique issues facing farmers and succession planning.](#)



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More Planning Now, Less Fighting Later

Many farmers want to avoid the topic of succession planning because they don't want to hurt anyone's feelings. Those who actually do make a plan sometimes proceed in secret with the attitude of letting the chips fall where they may. This is a sure way to initiate a legal battle over the value and control of the family farm. It's better to have clear, open and honest communication about your goals for the farm's ownership and operation with the next generation.

The following hot-button issues frequently send farm heirs to court:

■ Does anyone have the right to purchase your land or machinery upon your death? If so, at what price? Fair market value, as determined by an agreed-upon appraiser, is a reasonable starting point. A public auction is rarely the best outcome for the farm.

If you want one of your family members to have a right to buy land or machinery after your death, you need to say so. If you want them to have a chance to buy it at a discounted price, you certainly need to say so.

Unintended consequences, regarding your trust, might occur if you name one child as the trustee of your land. If you intend for that trustee child to be able to purchase some or all of the trust's property, you should say so. Absent specific language in the trust, state laws generally prohibit a trustee from participating in the purchase of trust property because of a conflict of interest.

■ Is there a non-family successor to your operation? Many farmers are creating succession plans that allow a non-relative, such as a long-time

tenant or trusted employee, to buy interests in the operation during retirement and upon death. Open communication is key, so the children don't feel their parents were unduly influenced while they were off living in the city.

If city heirs are going to be absentee landlords, special attention to details is crucial to allow the non-related operation's successor continued access to farm your family's land, while your children earn fair value rent on the land, based on the formula you define.

■ What about your house? What about your barns, pastures, shop and grain bins? Does one of your children get to live in your house? Do they have to pay rent, or is it part of their compensation for running the operations? Be specific.



If it's your intent for one of your heirs or another non-relative successor to use the barn, pastures and shop, for little to no rent, that's fine. Just say so. Often the bins, shop, etc., have been built on land that's going to end up co-owned by multiple children.

Take steps now to obtain a survey and split off that land as a separate parcel to make it easy to transition control and ownership of the operation to one child while all of the children own the farmland.

■ Outdated buy-sell agreements and estate plans can cause more trouble than if no documents existed at all. Review the governing documents of your farm business entities to make



POLLY DOBBS

Attorney Polly Dobbs specializes in estate and succession planning. As part of a seven-generation farm family, she knows the unique issues facing farmers.

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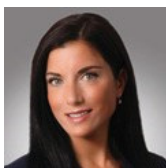
sure they are still a good fit and meet current goals. Farmland values change, family relationships change.

■ If some of your children will be landlords and another (or non-related successor) will be a tenant, be specific about who sets cash rent rates and what to do if (or when) they cannot agree.

You might be tempted to include a no-contest clause in your will or trust that says, "he who sues gets nothing."

Courts in about half our states will not enforce no-contest clauses. Other tactics have a similar effect. Include language waiving attorney-client confidentiality with respect to your intent regarding a different, lesser or lack of inheritance left to one child. Consider a clause that all legal fees to defend a lawsuit brought by a child be charged against that child's share.

Plan early, before your mental capacity becomes questionable. We can't stop an heir from suing, but we can help you take steps to build a wall and make it easy to defend that future lawsuit so it quickly fails. **FJ**



By Polly Dobbs
Attorney, Dobbs Legal Group, LLC
(Updated May 28, 2015)



4 Legal Estate Planning Strategies

A comprehensive succession plan gives your farm the best chance of surviving for future generations, notes Polly Dobbs, an attorney at Dobbs Legal Group, LLC, in Peru, Indiana. There isn't a cookie-cutter approach to estate planning, so you must factor in your goals, family dynamics and financial situation. She shares the following strategies in her own words:

1. **First Right of Refusal:** This may be given during a producer's lifetime, or it can become effective at death. A landowner can "sell" a first right of refusal to a family member, trusted neighbor or long-time tenant. Going forward, that farm cannot be sold without first being offered to the holder of the first right on the outlined terms. A right to purchase can also be effective at death. For example, your will or trust could leave the farm equally to all your children and require your off-farm children to offer their interest in the ground for sale to your on-farm children using the appraised value on the date of your death.
2. **Dynasty Trusts:** Protect your farm during your children's lifetime for ultimate distribution to your grandchildren or great-grandchildren via a dynasty trust. If your children never truly own the farm, then their creditors cannot reach it nor can they lose it in a divorce. You control who inherits the farm because your children's last will and testament doesn't govern the disposition of your dynasty trust's property. A dynasty trust can ensure all farm income goes to your children for their lifetime and can help keep the farm intact for distribution to your grandchildren without being included in your children's taxable estates.
3. **Limited Liability Company (LLC):** The formation of a limited liability company (LLC) can provide an orderly arrangement to keep farm property within the family by establishing an order of succession and control over the transfers of the interests. Frequently, children and parents contribute land to an LLC. In return, each receives proportionate ownership shares. An LLC may restrict the right of non-family members to acquire interests in the farm ground. Other benefits of an LLC include the promotion of knowledge and communication about the family farm and other assets. An LLC may avoid probate administration upon death if used in conjunction with a revocable trust agreement.
4. **Buy-Sell Agreements:** A buy-sell agreement is a no-brainer when unrelated parties are in business together or when brothers or cousins farm together and want to set forth exactly how the business will transfer upon the death of one. Upon certain triggers, an owner may be contractually obligated to sell his interests to the company or other owners. The company or other owners may have the option to buy those interests or be required to do so. You might want to agree on what the purchase price should be and then reevaluate and update the price every year according to the current fair market value. The price set in a buy-sell agreement is not binding on the IRS for valuation purposes unless it meets specific arms-length characteristics. Most commonly, the purchase price for an interest in a business that owns a farm is going to be based on an appraisal of the farmland and improvements thereon, and also a business valuation, which may include discounts for lack of control and lack of marketability.

Setting & Implementing Goals in Your Farm Family's Succession Plan

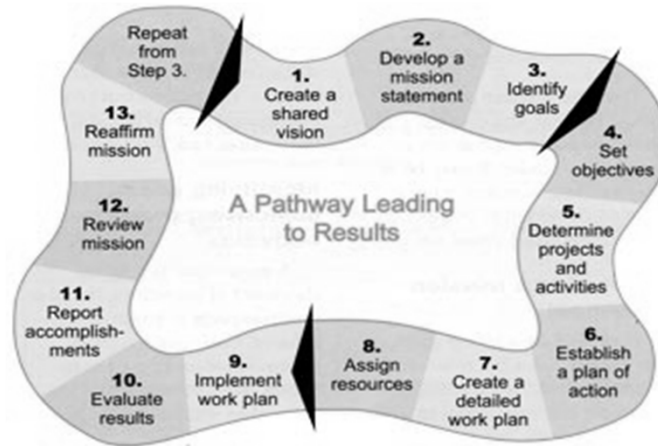
Developed By: Kelly Heckaman



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The Purdue Farm Succession Team is committed to cultivating strong farm families through the succession planning process by providing educational opportunities and current resources.

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<http://extension.umaine.edu/publications/6107e/>

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3 Main Types of Management Goals

1. Personal Goals
2. Production Goals
3. Operational or Business Goals

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Long-Term Business Goals

Directional – Move you toward the general objectives of our vision statement

Reasonable – Are practical and obtainable; not extreme

Inspiring – Are challenging; affect you positively

Visible – Are easy to visualize

Eventual – Will be fulfilled at a future time

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Short Term Goals are...SMART

Specific

Measurable

Attainable

Rewarding

Timed

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Sample Goals

Our family will create a succession plan.

By January 2018 all members involved in
operating the farm will have a will or
updated their will.

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Objectives are....

General
Observable
Challenging
Not specifically timed

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Possible Objectives

- ☐ Spend more time with the family away from the farm
- ☐ Retire to a warm location
- ☐ Review my will

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Implementing Goals in Your Family's Succession Planning

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Implementing a Goal is a 4-Step Process

- 1. Setting standards (goals to achieve)**
- 2. Measuring and Recording information**
- 3. Interpreting and evaluating data**
- 4. Taking corrective actions**

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Tactics/Tactical Planning

Who?
What?
Where?
When?
And How?

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4 Guidelines for Implementing Your Goals

1. Gain commitment of people involved
 - communicate
 - discuss
 - involve
2. Educate about purposes
 - help accomplish business goals
 - help business & individuals attain their goals

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Guidelines (continued)

3. Create climate of trust and support
 - result of action, not words
4. Review status of achievement & progress
 - involve them in considering alternatives & developing plans

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- **“Be conscious of who you are and what you stand for. Then live it every day.” “The best sermons are lived not preached,”**

Rance Miles, Southwest Cheese Company LLC

Bulletin #6107, Vision, Mission, Goals & Objectives...Oh My!

 extension.umaine.edu/publications/6107e/

Group Works: Getting things done in groups

Vision, Mission, Goals & Objectives...Oh My!

This fact sheet was developed by Deborah Killam, Extension educator.

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Find more of our publications and books at extensionpubs.umext.maine.edu.

What you will learn:

- How to encourage greater focus on issues of importance to a group.
- Why a shared vision is important to a group's success.
- What a mission statement should consist of and how it can be used.
- The importance of identifying goals and setting objectives.
- How strategic thinking and action planning tools help to produce results.



We are a nation formed from the bold volunteer spirit of the people. Our communities continue to depend upon people coming together to volunteer—to serve. “To volunteer is to choose to act in recognition of a need, with an attitude of social responsibility and without concern for monetary profit, going beyond one’s basic obligations.”¹

The information in this fact sheet can help groups become more productive. To make the best of everyone’s desire to make a difference, group members need to create a shared vision, develop a mission statement, and commit to identified goals, objectives and plan of action.

As a starting point, when planning for a group’s future, members may want to consider the following questions:

- Where have we been?
- Where are we now?
- Where do we want to be?
- How do we want to get there?
- How will we know when we have arrived at our destination?

The success of a group may depend upon bringing people together, both physically and philosophically. Our view of

the world is influenced by the values we hold. Our values become the basis for our personal vision, mission, goals, objectives and actions. The group needs to reconcile differing perspectives, find common ground and create a shared vision.

What you will need: blank sheets of unlined paper, markers or pencils in assorted colors, wall space to display group work

1. Provide each person with a blank sheet of unlined paper and colored markers or pencils.
2. Have each person take a moment to visualize what their community would look like if the issues or problems of concern to the group were resolved.
3. Ask each person to either draw a picture or list descriptive words that represent their community vision.
4. Display all work on an open wall.
5. Have each person briefly explain his or her vision.
6. Have group members identify the common theme(s).
7. Use the themes to craft a shared vision statement.

Creating a shared vision

A group's shared vision

- communicates a sense of purpose;
- expresses what is important and why;
- focuses on the future;
- reflects the shared values of group members; and
- uses pictures, images and words to bring the vision to life.

The shared vision statement should be clear and concise, and create a visual image in the mind of the reader. It may be as brief as a few words or a more detailed collection of points that create the desired visual image.

Developing a mission statement

How will your group reach this shared vision? A mission statement could tell us this. The statement becomes a tool to communicate the group's purpose to others. A mission statement will tell people 1) what you do, ²⁾ for whom do you do it, and ³⁾ how you will get it done. The mission statement

- sets the group's direction;
- is clear and concise;
- is realistic;
- reflects the values and beliefs of the group;
- demonstrates a commitment to serving others;
- is inspirational; and
- is action oriented.

Working to develop a mission statement will produce additional benefits. The process can generate enthusiasm and excitement for the work at hand.

Blueprint for a mission statement

1. Think about your group or an organization you are familiar with. 2. Write a mission statement, using the example and table provided below as a guide. *Example:*

Group or organization's Name	What you do	For whom do you do it	How will you get it done
University of Maine Cooperative Extension	• Improve lives • Focus on issues and needs	• Maine people	• Through an educational process • By using research-based knowledge
Mission Statement	To help Maine people improve their lives through an educational process that uses research-based knowledge focused on issues and needs.		

Your group:

Group or organization's Name	What you do	For whom do you do it	How will you get it done
Mission Statement			

Identifying goals, objectives, projects & activities

A group goal is a broad statement of something that the group expects to attain or achieve. Goals may be short, intermediate or long-term in nature. Well-written goals are believable, attainable and based on identified needs.

Objectives are statements of specific, measurable and attainable outcomes that contribute to the achievement of a particular goal. Outcome-based objectives focus on

- changing people's behavior or circumstances;
- changing something about the community; or
- establishing a process for achieving a particular goal.
- establishing a process for achieving a particular goal.

Blueprint for objectives

1. Consider one of your group's goals2. Write a specific, measurable, attainable objective related to the group goal you selected. Use the example and blank table provided below as a guide.*Example:*

Goal	Do what	To what extent	To whom	By when
Improve the in-home safety of older adults	Install grab bars for bathtubs	In 30% of the homes in a given town	For adults 60 years of age or older	By the end of this calendar year
Specific, measurable, obtainable objective: By the end of this calendar year, 30% of homes inhabited by residents 60 years of age or older in our town will have bathtub grab bars.				

Your group:

Goal	Do what	To what extent	To whom	By when
Specific, measurable, obtainable objective:				

Developing an action plan

An action planning process helps groups

- see the “big picture;”
- focus on vision, mission, goals and objectives;
- build consensus around planned actions;
- work more efficiently;
- attract human and financial resources; and
- establish short-, intermediate- and long-term plans.

During the planning process, your group may identify additional information or skills that are needed to accomplish group goals. The group can then take steps to acquire what is necessary for success. Other opportunities and barriers to implementing established plans may also surface. These can be considered when finalizing the group's action plan and project timelines. Operating procedures, policies and incentives may also be needed to support implementation of group plans. Allow time to put these procedures, policies and incentives into practice.

A nine-step action planning process can help your group generate the information it needs to develop a plan of action. Follow these steps for each goal your group has decided to focus upon:

1. Describe the goal to be achieved or the problem to be solved.
2. Define specific, measurable and attainable outcome-based objectives.
3. Research possible projects or activities to address goals and objectives.

4. Evaluate the pros and cons for each possibility.
5. Select the most appropriate possibility(ies) to implement.
6. Detail the tasks that are required to accomplish the project or activity.
7. Establish a timeline.
8. Allocate resources.
9. Assign responsibilities.

Once the plan is complete, projects or activities can be staffed, implemented and evaluated.

This structured approach to your work may seem over-whelming, but the time you spend on the front end of your group's development will be invaluable over the long haul. The shared vision statement and mission statement will provide the foundation your group needs to productively move into the future. Periodically develop or review group goals, objectives, projects and activities to keep everyone headed in the same direction.

Blueprint for detailed work plan					
<i>Possible work plan format:</i>					
Project/activity description	Task(s) to be done	Who is/are the responsible person(s)	Task(s) to be completed by when	Costs, if any	Other

Resources

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"Building for the Successful Transition of Your Agricultural Business" Fact Sheet Series

Developing Goals for the Agricultural Business

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Goal setting is a critical step in the strategic planning process of any agricultural business. While a mission statement steers the direction of the business, it tends to be rather abstract. Goals are more concrete and are therefore easier to comprehend and to act on. Ultimately, goals will be the standard by which we will measure our progress in the agricultural business, so goal setting deserves the utmost attention.

SMART Goals

An acronym commonly used to describe effective goals is SMART. Goals must be Specific, Measurable, Action-oriented, Realistic, and Timed in order to be useful management tools.

Goals should be:

Specific — Goals should focus on a specific problem or need.

Measurable — There must be some means of tracking achievement of goals.

Action-oriented — Actions will be the pathway to achieving goals.

Realistic — Aim high, but keep goals within the realm of possibility.

Timed — Goals are only useful when they are current. They should include a realistic timeline and a completion date.

Goal setting should include a specific action, an evaluation process, and, if needed, refinement of the goal. In this respect, the goal-setting process closely resembles the scientific method. Goal setting is purely an internal function intended solely to benefit your operation or in some cases, just the manager.

Developing and refining goals for any operation may be challenging; however, the process should be enjoyable for those involved. If goal setting becomes tedious or exhausting, take a break from it and come back to it at a latter time. There is no finite time frame for goal setting — it is a fluid process that will evolve as an operation grows and changes. Since goals are intended to guide a specific agricultural business, the manager has great latitude in goal setting and the chosen approach to achieving those goals.

From a manager's perspective, there are three types of goals that are crucial to the agricultural business. They are the manager's personal goals, production goals for a specific enterprise, and operational or business goals for the operation as a whole.

Three Types of Management Goals

1. *Personal Goals*
2. *Production Goals*
3. *Operational or Business Goals*

Personal Goals

Personal goals involve the ambition and dedication of a single individual. Several people may share the same goal, but it is a goal for them individually. Personal goals often pertain to the advancement of a person's career or to the allocation of scarce resources, particularly time. A manager's personal goal might be to own the operation, which he or she currently manages, within the next five years. Another could be just to attend his daughter's spring concert next Thursday, even if it means finding someone to cover his normal duties. Personal goals will come in all sizes, but the take-home message is that they must be

communicated to others within the business because the manager's personal goals can have a profound effect on the outcome of business goals.

Production Goals

Production goals involve improving a process within the operation. Production goals are much narrower in scope than operational goals because they pertain to just one piece of the much larger puzzle that is the agricultural business. Agriculture as an industry embraces production goals but many times at the expense of operational or personal goals that are equally important.

If you are a dairy manager, a good production goal might be to increase the rolling herd average by 10 percent over the next two years. This goal will never be realized if it is not communicated to the right people within your operation. A goal of this scale is likely to require several improvements in the day-to-day operation of the dairy. As the manager, it is your responsibility to educate your employees on specific changes that they can make to help the team achieve this production goal.

Operational or Business Goals

Operational goals are usually grander, both in scope and scale, than production goals. While operational goals are still focused, they pose a good opportunity for the managers of an operation to dream big and challenge themselves in the future. While commonly overlooked, operational goals are essential for long-term growth of any operation.

A common operational goal is to accommodate the income needs of the next generation by expanding the operation. Again, the initial step in seeing this goal to fruition requires good communications. Why should the operation expand to support the next generation if the next generation has no plans of ever joining the operation on a full-time basis? A good manager will convey to the other employees of the operation the importance of operational goals and what their role will be in the process of achieving the goals.

In many cases, one set of goals is directly dependent upon another set of goals first being achieved. For example, an operational goal may be to expand an operation by 50 percent in the next two years. This goal would probably be dependent on achieving reasonable production goals over that period. Likewise, if the manager has personal goals of earning more money, this may hinge on the proposed expansion. Assuring that goals within the operation do not conflict is another responsibility of the manager.

Building a Consensus

Goals that a manager hopes to achieve in his or her farm business need to be communicated directly to those who can help achieve those goals. This communication could take any of several forms, but in most settings, talking directly with key people or meeting with employees in a group setting will help build consensus among the people who will make goals attainable. Without the universal support of your employees, the chances of accomplishing your goals will be greatly reduced. Striving for universal support of a farm's goals is an ongoing management task and a critical step in seeing goals to fruition.

Good managers surround themselves with intelligent people who have their finger on the pulse of the operation. If key people in the operation do not offer support of established goals of the business, then consider that there may be aspects of those goals that have been overlooked. Ask for their input, but be ready for the possibility that the response does not parallel your viewpoint. Working through this dialog will help to refine the goals for a business and make strides in building consensus among its employees.

In many farm businesses, a consensus would mean getting only two or three people to agree. At times, this can be more difficult than getting support from a room full of people. Even if a manager is only in charge of one other employee, setting goals without seeking that person's input will usually prove ineffective. One very effective approach is to offer a goal as a suggestion, let the idea simmer for a few weeks and then bring it up again. By that time the goal will either have gained momentum or it will just fade away. This is particularly effective in small and/or intergenerational operations.

Goals Reflect Persistence

Let's look at a real-farm example of a practical production goal. A father and his two mature sons operate a successful grain and hog operation with the help of two very dedicated full-time employees. One son provides leadership to the farrow-to-finish operation while the other son manages the grain production. All five people work in both segments of the operation when needed.

The son managing the hogs realizes that the operation experiences poor performance in growing pigs following the move from nursery to finishing floor. His hunch is that the growing pigs would make the transition to the finishing floor more efficiently if they were a bit larger, say 37 lbs. instead of 34 lbs. as they had averaged in the past. The manager makes this a goal of the hog operation for the

next few months. He brings up the idea at the morning coffee break which doubles as a morning meeting for the entire operation each day. The group discusses it briefly, and they all go their separate ways. No formal action was taken, but the seed of a production-improvement goal has been planted.

Strong Operations Make Goals Happen

Just one discussion was enough to prompt the people in this operation to spend a few more minutes each day to ensure that the nurseries were as comfortable as possible so that the pigs grew just a little faster. In just two months the operation increased the nursery weights to 37 lbs. and ultimately the operation reduced the days from farrow to market by three days. Six months later, no one in the operation could agree where the suggestion came from, but all agreed that the young pigs were making the transition to the finishing floor more smoothly than ever.

In this example, the goal was specific, measurable, realistic, action oriented, and had a time element. Even more important is that the goal was subtly stated, and as a result, the team accepted the challenge and worked toward attaining the goal without having to commit extraordinary time or resources. As far as no one remembering who should get the credit — that is a great example of a work team achieving a shared goal.

Summary

Goal setting is a management duty, but it should be an enjoyable experience. Goals help challenge those involved in the business, but more importantly, goals can get everyone

in the organization working for the betterment of the operation. Many goals will never be realized. Some will spawn new ambitions. Others will be achieved and surpassed, but the process of goal setting should continue for the life of your business.

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- ☐ Short Term Goals
- ☐ Intermediate-term goals
- ☐ Long-term goals

Goals for

(Year)

(Operation Name)

- ☐ Farm/Business Goals
- ☐ Family/Personal Goals

Goal	Priority (High, Medium, Low)	Task(s) to be done	Potential Restriction/Conflict	Resources Needed	Assigned Team Member	Deadline