

Topic IV. Entry and succession: entrant's role in influencing farmland succession arrangements

Learning objectives

1. Gain a broader understanding of farm succession issues.
2. Examine elements and stages of succession planning.
3. Explore what makes a successful farm transfer.
4. Explore the role of entrants in farm succession.

Learning outcomes

1. Basic understanding of farm succession.
2. Basic skills to have an effective role in a farm transfer situation.

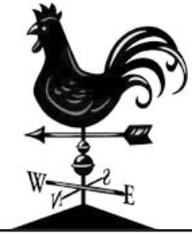
Key points of information

- Farm succession is a complex process. It may involve multiple generations on a farm or unrelated parties. Farm transfer and farm transition are also terms used to describe the process of passing a farm from one generation or owner to another.
- Succession planning includes transfer of assets, income and management. Many farm families do not have succession plans, and no identified successor. Advisors such as attorneys, financial planners, and facilitators may be brought in to help assemble a good plan.
- Importance of younger generation. Sometimes, it is the younger generation that must prompt the planning process.

What is farm succession and why is succession planning important?

Succession is a complex process that often takes several years and may pass through several stages before it is complete. In family business literature, succession is the transfer of management and leadership from one generation to the next. In this framework, succession is distinguished from the transfer of real estate and other assets. Often, succession is intended to imply an *intra-family* transaction—from senior to junior within the same family, but it is not by definition limited in this way. Others see succession as a set of social decisions, compared to transfer which focuses on the legal and economic decisions (Danes 1995). Some use the terms succession, transfer and transition interchangeably.

A sometimes challenging and lengthy process, the transfer of managerial control and ownership of the farm businesses and the land which sustains it needs to be brought to the attention of all parties well before the current operator retires or faces serious health concerns. In fact, retirement is a process, not an event. It can take a decade or more. Addressing this process is the key to a successful transfer. Joining an agricultural operation, completing agricultural education, or returning to a farm are opportunities to discuss succession plans.



The USDA estimates that as many as 500,000 of the nation's 2 million farmers will retire in the next two decades. The average age of U.S. farmers is 56, and increasingly, farmers are farming well past traditional retirement age. In fact, one-third of surveyed Iowa farmers said they will never retire (Baker et al. 2004). Their thoughts about exiting from farming are closely tied to their ideas about succession and transfer—passing on the farm operation and assets.

“Failure to plan carefully for retirement and transfer of the estate can result in serious problems such as financial insecurity, personal and family dissatisfaction, and unanticipated capital losses” (Mishra 2003). Business succession is a challenging process for all family businesses, including farming. How exiting farm families address these transitions has enormous consequences, not just for those families, but for next generation farmers and ranchers, the overall structure of U.S. agriculture, local economies and the environment. “[Retiring farmers’] succession decisions and retirement plans are of considerable importance to the farming community and the future structure of agriculture. Continuity of the family farm and the family farm sector is highly dependent on successful transfer” (Gale 2003).

Many farmers are reluctant to even discuss farm succession because talking about a day when they are not the primary operator and decision-maker is perceived as losing control and akin an early death.” In other words, the ties to farming that many farmers feel can be deeply enmeshed in transferring the farm business and land.

Often, it is the younger generation that initiates the conversation. They are motivated to move into more management, and to acquire farm assets. Regardless of who starts the conversation, the parties to a transfer, as well as any others with a stake in the future of the farm, need support and technical assistance to get through the transfer planning process.

Stages of succession planning

In one framework (Hutson 1987) for a traditional, intra-family farm succession process, there are four stages. The first stage is signified when the successor finishes his/her education process and begins full time employment on the farm. Often during this stage there is a period of conflict as the successor attempts to assert his/her own set of values and beliefs.

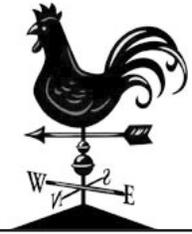
In the second stage, the primary operator and successor work to maximize the output of the farm and expand the farm operation from a 1-family to a 2-family operation. Now there are two families to support. In this stage several decisions must be made with regard to supporting the successor. Should the farm expand? The successor will likely have an impact on financial, technical, and investment concerns.

In the third stage the successor becomes more responsible for management of the farm operation. As the successor gets older he/she becomes more independent and the farm operator begins to transfer managerial control.

The fourth stage is signified by the retirement of the operator and the control of the farm being handed over to the successor. While the senior operator may relinquish managerial control he often retains ownership of at least some of the farmland until death ensuring retirement income and some measure of control.

Other researchers (Gasson, R. and Errington, A.1993) frame succession around four general patterns:

- *Standby Holding*: The successor is set up (by the parent farmer) on his/her own farm allowing them the opportunity to develop managerial skills. Equipment is often shared but the successor is independent financially and managerially from his/her father.



- *Separate Enterprise*: Some farms have the ability to develop a separate enterprise for the successor. Such enterprises could include a separate/new line of livestock or a farm contracting business. The successor can develop his/her own management and decision-making skills which can be used when he/she is farming alongside the older generation.
- *Partnership*: This type of relationship can be formally cemented and allows shared responsibility between both generations. But when done only “on paper”, this would fall into the farmer’s boy pattern.
- *“Farmer’s Boy”*: The successor spends years working alongside the older generation without having much involvement in decision making. Usually the successor is simply a supply of labor to the farming operation. Consequently the successor fails to develop managerial skills necessary to run a farm operation. The successor’s reward may be the eventual ownership of the farming operation.

Two additional, less conventional categories of successors have been identified as: those over the age of 16 who are in full time education, and those who take a “professional detour” prior to taking over the family farm. A professional detour includes working on another farm, working at an off farm job, or traveling. These may be particularly suited to operations that cannot support two families. The younger generation can gain equity from off-farm employment and asset owning while waiting until the older generation retires. A successor may go from one category to another. The successful transfer of a farm depends on preparing the successor for the retirement of the principle farm operator and the decision on what pattern to follow will affect how the transfer progresses.

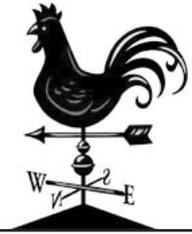
Elements of succession planning

With these challenging and emotionally weighty considerations, it is not surprising that so few farmers have adequately prepared to exit farming. According to one study, only 36 percent of farmers and farmland owners have an estate plan. Eighty-two percent did not have exit strategy and do not know how to develop such a strategy. Further, only 12 percent of farmers had formulated a retirement plan and 88 percent indicated they were have not made adequate financial plans to provide income for their retirement (Spafford 2006).

Without adequate planning the consequences can be disappointing, if not devastating. Farm operations can end, family lands might have to be sold and in some cases converted out of agriculture, and families might be torn asunder. On the other hand, families that address succession and transfer in a timely matter are much more likely to achieve their person, family and business goals.

Several issues contribute to the tendency of many farm business operators to avoid making sufficient plans to successfully turn over the farm to a successor. One thorny issue is the transfer of *decision-making authority* as a part of the transfer of the farm business to the next generation. Farmers often overlook the importance of adequately preparing the next generation for taking over farm management and are reluctant to relinquish control, therefore delaying the transfer of decision-making responsibilities.

Financial concerns are often a challenge in succession planning, including how to provide for retirement income and the tax impacts of transferring farm assets. Other financial concerns that prevent farmers from retiring or at least preparing for retirement are the impact that taxes may have on the transfer of assets. Taxes are often cited as a principle concern; however, knowledgeable accountants and attorneys can devise strategies to minimize the tax impact. For most farmers the impact of taxes on the transfer of assets, either

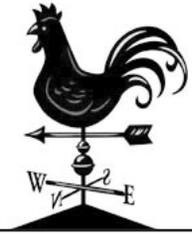


during their life or through their estate, is not a critical factor. However, the current tax code does encourage farmers to retain ownership of their land, the most valuable assets, until death so that it will receive a new tax basis.

The desire to keep the farm in the family can limit opportunity for unrelated beginning farmers to gain access to land. In some arrangements, however, it is possible for non-farming family members to continue to own land while making it available to others willing and qualified to farm it.

There are many things entering farmers can do to help alleviate the stress that comes with a farm transfer.

- **Start early.** A proper farm succession plan is something that takes a lot of time, often five to fifteen years and in many circumstances even longer.
- **Talk to your landlord, employer, parents or senior partner.** Have regular meetings of the management team, whether between family members or non-relatives. If a new partner (entrant) is joining the existing operation (before a complete transfer of ownership and managerial control), the current farmer and entrant need to write down their desires for the farm business and any land they own or to which they want to access.
- **Consider including additional team members** in the discussions such as a professional mediator, a farm business instructor, extension agent, attorney, or lender. Use a template to begin to write an agreement for tenure and keep going over it as many times as necessary until both sides understand and agree to the entire document. Have a third party review this document to see whether anything important has been left out or whether something is unclear or vague, esp. for possible future situations that may arise and cause conflict.
- **Develop a long-term plan for the farm.** Start with goals of the current farmer and the entrant and work toward a document that includes both (again, templates are available with which to get started for many types of farms and production systems) Include a time frame of the transfer of various parts of the farm business, management, land and other assets, if applicable; note the environmental and conservation goals and the practices that are acceptable and/or required to maintain the land, soil, watershed, wildlife and other valuable natural assets; include, where appropriate, the will or estate plan of the existing farmer as it affects the transition of the farm business, property, equity and assets; discuss and include housing arrangements for the entering farmer and family, as well as plans for the existing farmer if changed by retirement or transfer of the farming operation. Decide whether the lease will extend to future owners (eg. owners' children, during farm transfer) if the death of the existing farmer precedes the transfer of ownership to the entrant farmer.

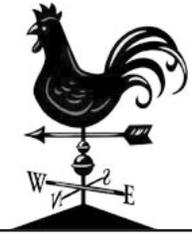


Discussion questions

1. What do farm families (your family?) need to consider when transferring the farm?
2. Compare and contrast transferring to a family member versus a transfer to a non-family member.
3. How do different entrant stages/tenure arrangements affect the long-term and succession goals of the farm?
4. What are challenges and opportunities raised when discussing succession planning 5–15 years before the current operator retires or stops farming?
5. Discuss some advantages and disadvantages to the successor (entrant) leaving the farm for a period of time before taking over.
6. If you are leasing or renting, what should you know and understand about your landlord's estate/succession plan and why?
7. How can you make your environmental/conservation goals known and followed in a succession plan?

Activities

1. Role play two generations preparing to transfer the farm or two unrelated parties meeting for the first time to consider a farm transition.
2. Complete the “[Farm Transfer Activity](#)” individually and then discuss in small groups. Has the future of the farm been discussed by the current farmer(s)? Has anything been put in writing about who will own or operate the farm next?
3. Develop a farm entrant “career pathway” plan—steps from education to internship, early job(s), share or lease agreement to (perhaps) purchase. See additional resources for examples, esp. *Nurturing the Next Generation of Wisconsin's Dairy Farmers*.
4. Complete “[Communication Challenges Activity](#)” and then find a partner. Trade lists and compare. What feels particularly uncomfortable for each party to talk about; why? How could you approach these topics with consideration? Share with the full class. See also [Module Two, Topic 4: Communication](#).
5. Look at the example of the [J's Farm](#) families (see case study below) in East Central WI incorporating the next generation (including son in-law). Brainstorm several different ways of adapting a current farm operation to include incoming farmer(s) before retirement of the existing farmer(s). What does it take to have a successful multi-generational farm?



Guest speakers

1. A beginning farmer specialist from the University, county Extension office or farm link program.
2. Beginning farmers.
3. Attorneys who specialize in farm transfer.
4. A multi-generational farm operation which has undergone a successful management; two generations could speak from their perspective.

Assignments

1. Write a short paper comparing and contrasting at least two succession patterns, using examples from real farms: standby holding, separate enterprise, partnership, farmer's boy, full-time education, and professional detour (see FarmLASTS research report section on succession).
2. Complete a succession planning worksheet (for the incoming generation).
3. Talk to family members about their succession plans or experiences.

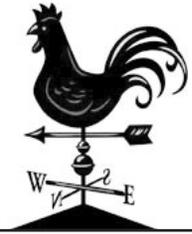
Case studies

[J's Farm](#) to discuss how an entrant can be involved in succession planning.

[Smith](#) to discuss incorporating environmental goals into a succession plan.

Sources

- Baker, John, Michael Duffy and Adrienne Lamberti. 2004 [Farm Succession in Iowa](#). Iowa State University Extension
- Danes, Sharon and Kathryn Rettig. 1995. [Economic Adjustment Strategies Of Farm Men And Women Experiencing Economic Stress](#).
- Errington A.J. & Loble M., *Handing Over the Reins: A Comparative Study of Intergenerational Farm Transfers in England, France, Canada, and USA*, Paper Presented to conference of the Agricultural Economics Society, Aberysthyth, 8–11 (April 2002).
- Gale, H. Frederick. 2003. "Age-Specific Patterns of Exit and Entry in U.S. Farming, 1978–1997." *Review of Agricultural Economics* 25(1):168–186.
- Gasson R. & Errington A., *The Farm Family Business*, CAB International, Wallingford, 304 (1993).
- Hutson J., *Fathers and Sons: Family Farms, Family Businesses and the Farming Industry*, Sociology, vol. L1, no. 2 (1987).



Mishra, Ashok K., James D. Johnson and Mitchell J. Morehart. 2003. "Retirement and Succession Planning of Farm Households: Results from a National Survey." Paper presented at the National Public Policy Education Committee, September 21–23, 2003, Salt Lake City, UT.

Spafford, Kevin. *Legacy by Design: Succession Planning for Agribusiness Owners*. Marketplace Books, 2006

Additional resources

[New York Farm Net](#) has set for themselves a mission "[t]o provide farm families with a network of contacts and support services to help them develop skills for dealing with life challenges and transitions—through personalized education, confidential consulting, and referral." NY Farm Net provides guidance in all areas of farm succession planning; they are confidential, and free.

Fred Schmedt, *Begin Succession Planning Now*, The Samuel Roberts Noble Foundation Ag News and View Economics, Sept. 2005 available at <http://www.noble.org/Ag/Economics/SuccessionPlanningBeginNow/index.html> and see also <http://www.noble.org/Ag/Economics/SuccessionPlanningIsCritical/>

Chris Elmendorf, *Montana FarmLink Toolbook*, Alternative Energy Resources Organization, 1998.

Minnesota Extension Service, *Farm Asset Transfer: Maintain Rural Communities through Successful Farm Asset Transfer*.

Annette Higby, *Farm Transfer and Estate Planning*

[Nurturing the Next Generation of Wisconsin's Dairy Farmers](#), Oct. 2001, UW-Madison Center for Integrated Agricultural Systems

[Farm Transfers in Wisconsin: A Guide for Farmers](#).

Farmland Transfer and Protection in New England: A Guide for Entering and Exiting Farmers.
<http://www.smallfarm.org>

[Will Your Family Farm Continue?](#)

[Transferring the Family Farm: What Worked, What Didn't for 10 New Jersey Families](#).

[American Farmland Trust](#)