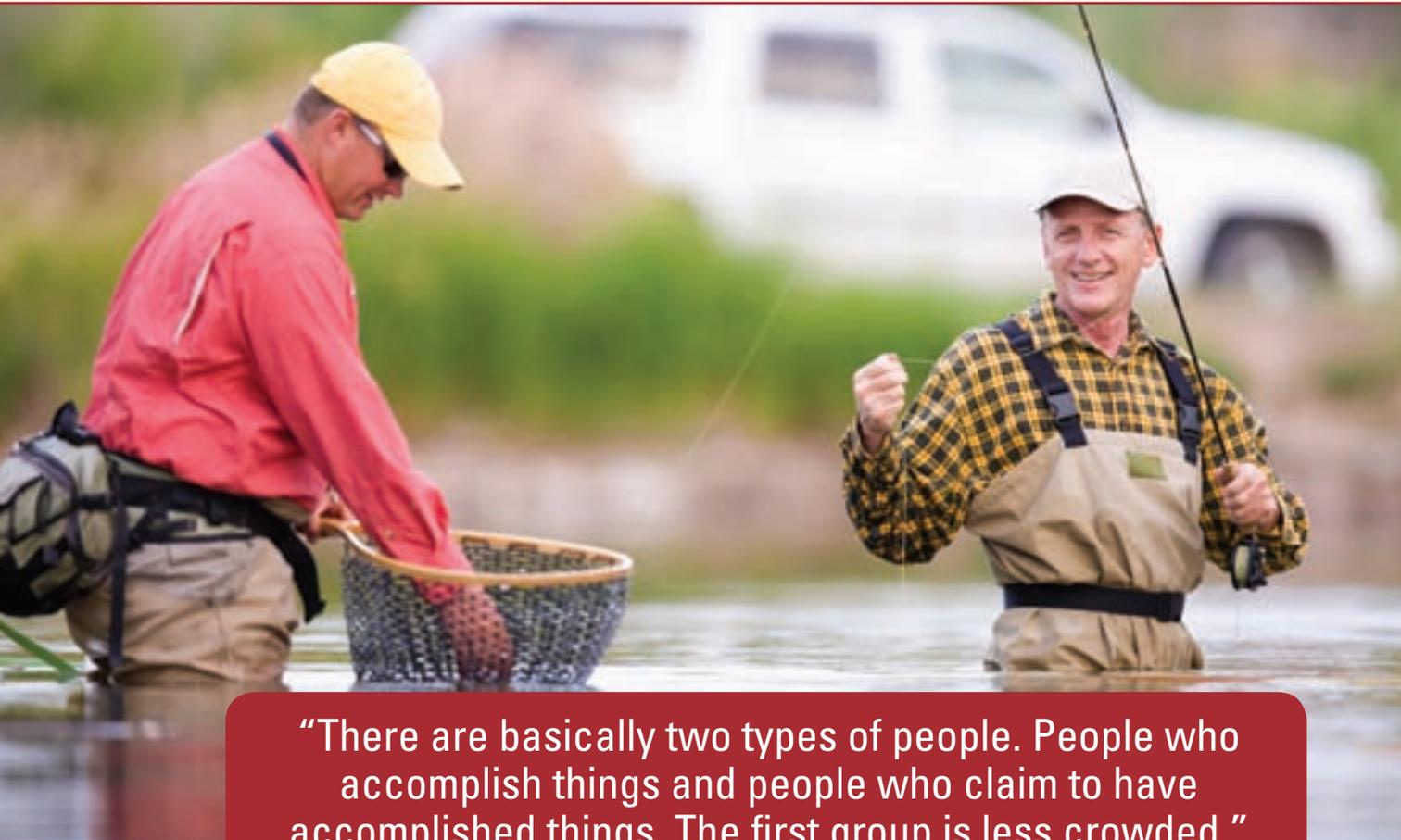


Chapter 8

Ready for Retirement?



“There are basically two types of people. People who accomplish things and people who claim to have accomplished things. The first group is less crowded.”

Mark Twain

PREPARE FOR WHAT'S NEXT

A fully funded retirement plan is paramount to successful transition.

When farmers discuss retirement, there is often a hesitation in their voice. It's never clear if that's due to a love for their occupation or if it's because they've neglected to plan for "the day."

Retirement planning takes time and contemplation. Many owners don't, or won't, retire due to an unstated lack of preparedness. Chalk it up to a lack of planning, having no confidence in successors, no financial preparation or an inability to retire without jeopardizing the financial integrity of the business operation.

Farmers at the retirement stage are typically independent and have enjoyed farming for 50 years or more. To suddenly stop farming can be stressful. Retirement is a one-way trip and it's difficult to start over again if you change your mind.

THINK IT THROUGH. Take some time to detail in writing the ideal picture you want to see in the future—for your vocation, your family and your financial situation. All too often, people sacrifice opportunity and falter under self-imposed constraints by thinking first and only of money.

Some advisers suggest a respite from the day-to-day farming responsibilities or even an extended vacation. Planning for retirement may not be the ultimate goal but rather a response to burnout.

A good suggestion is to set up a retirement option, where the farmer establishes a time line for transition and then builds a succession plan based on the chosen date. If the farm owner gets to that point and wants to retire, everything is in place to make that happen. If not, the farm owner is better prepared financially, vocationally and leadership-wise to aggressively grow the operation instead.



the sale or transfer of the enterprise. Equity and earnings will enhance retirement resources, so the focus should be a combined return on investment.

3. Have I considered alternatives to complete retirement?

Often, the role of owner transitions from leader to coach/trainer to assist the next generation of management. The cultural capital you can offer is priceless as new owners struggle to establish their footing.

4. Are my children, grandchildren, loyal employees and/or extended family members interested in continuing to grow the business?

Extended family members and/or loyal employees often have an interest in continuing the business but don't feel comfortable approaching you directly. Make your intentions known so that others may express their interests.

5. Do I see a financially sound retirement?

The good news is retirement can last 20 to 30 years; the bad news is retirement can last 20 to 30 years. Retirement income is typically a finite number, but your future expenses are a wild card. In theory, spending will be reduced, however the rate of inflation for a retiree household can be double the Consumer Price Index. A realistic rate of inflation must be factored into calculations.

The rudiments of retirement planning are consistent, regardless of occupational history. The first step is to establish concrete financial goals and an option date. The reasoning behind the financial goal is self-explanatory; the option date lends urgency and sincerity to the objectives.

As a family business owner, planning will center on the disposition of the operation. For

instance: Do you intend to sell the company or will it pass to a family member, current employee or outside party?

PLAN YOUR BUDGET. Every farmer who is considering retirement needs to complete an income and expense budget, one that takes into account the inflation factor.

About one-third of retirees return to work within 18 months. That's not usually by choice; it's a necessity based on poor planning.

Farmers need to determine after-tax cash flow during retirement and, if land is retained, estimate cash flows from rent. Other cash flow considerations include Social Security, interest, dividends and any IRA, annuity or pension distributions.

The choice is yours. You can prepare now for the kind of retirement you aspire to, or you can live by chance, hoping that your retirement will be long and fruitful.

Fund Your Retirement Life

Most people don't bother to figure out how much money they will need to fund their desired retirement lifestyle; they instead design a standard of living around an allotted amount of money. There are four variables that determine the success of every retirement plan:

- 1. Contribution amount.** How much money is being invested to fund retirement?
- 2. Time.** Is there enough available to reach the accumulation goal?
- 3. Return on investment.** Interest earned, dividends reinvested and capital appreciation.
- 4. Accumulation goal.** Amount of money needed to fund retirement.

CHAPTER 8 EXERCISE

READY FOR RETIREMENT?

1. Do you plan to retire? If so, when and under what conditions? What i

2. Have you considered other ventures in your vocational life? If yes, explain...

3. How much income do you need in retirement?

Total cash receipts: \$ _____

Total expenditures: \$ _____

Retirement deficit: – \$ _____

Retirement excess + \$ _____

To calculate, use the “Retirement Income/Expense”
tool at www.FarmJournalLegacyProject.com.

4. Do you have a deficit or an excess?

5. Can you create an accumulation plan?

6. How much can you contribute regularly?

7. What rate of return should you assume?

8. How much time will you allow to reach your goal?

9. Do you need to adjust one or more of your assumptions in order to realize your goal (time, contribution amount, rate of return, projected living expenses)?

10. Should you consider a retirement plan that includes employees and other benefits?

11. What one lifetime goal is not open to compromise?

You can also find this tool at
www.FarmJournalLegacyProject.com

