



DEVELOPED BY FARM JOURNAL AND SUPPORTED BY PIONEER



**Actionable Steps –**  
*Joe Kluender, Farm Family Dynamics*

### Actionable Steps - Agenda

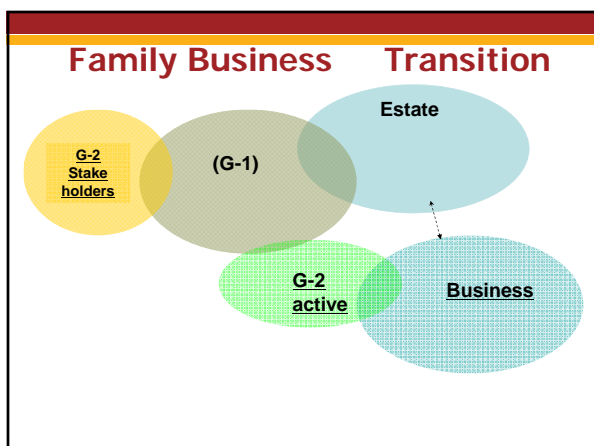
- ✓ Differentiating succession & estate planning
- ✓ Goal definition & Planning family meeting
- ✓ Transition timetables
- ✓ Building post-retirement cashflow projection
- ✓ Managing collaborative succession planning team
- ✓ Resource Review



### Differentiating succession & estate planning

### Estate Assets vs. Succession Assets

<u>Estate Box</u>	<u>Operations Box</u>
<ul style="list-style-type: none"> <li>✓ Farm land</li> <li>✓ Life Insurance</li> <li>✓ Non-farm Investments</li> <li>✓ Home</li> <li>✓ Personal effects</li> </ul>	<ul style="list-style-type: none"> <li>✓ Operating Entity</li> <li>✓ Machinery</li> <li>✓ Home site</li> <li>✓ Grain bins</li> <li>✓ Debt</li> </ul>



### Succession Planning

- ✓ Starts with "mission, vision, values talk"
  - Business continuation or liquidation?
  - Management and ownership transition
- ✓ Deals with who will be involved, tactics, timing, legal agreements (buyouts), duty transitions, family employment policy, compensation, etc.
- ✓ "Business Planning"



## Estate planning

- ✓ Financial Wealth analysis – estate tax risk; liquidity coverage; insurance needs
- ✓ Capacity to provide retirement security
- ✓ Capacity to distribute wealth – now vs. later
- ✓ Investment strategies – post retirement
- ✓ “Death Planning” - final instructions, distribution of personal assets, health care



## Building family & business profile

Ask: What do **you** & **advisory team** need to “take inventory...” (start with 3-ring binder)


- Biographical information – resumes, family information, BD, addresses
- Business Profile
  - ♦ History of the business - narrative
  - ♦ Land titles, ownership interest, investments
  - ♦ Tax returns, financial position & trends
- Insurance coverages
- Estate plan documents, wills, trusts, POA, etc.

How much are we paying professional advisors to accumulate this information?



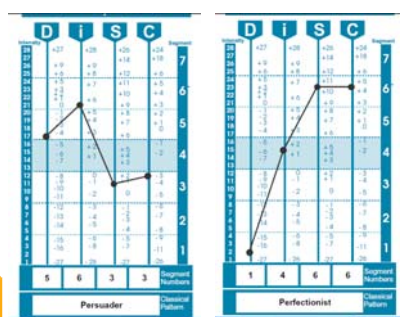

## Assess generational influences on succession dynamics

- ✓ “Genetic coding”
  - What did you dislike most in predecessors?
  - Do you see these traits in yourself? (Story@)
  - Do you ask for feedback? ...“call out authority”
- ✓ Gen X vs. Y only 2 of 6 generations
  - Understand how history impacts values, priorities, & risk attitudes
  - Communication methods




Common Pitfalls in Transition Planning 9

## What's Your DISC dimension?


## Goal definition & family meeting

- ✓ Family meeting strategic approaches
  - Pages 8 Legacy Workbook
  - Is it different if you are in Stage I, II, or III?
- ✓ Excellent place to handle “fair vs. equal” talk



## Youth Message: Don't draw wrong conclusion about procrastination

- ✓ Is avoiding succession the real issue?
- ✓ How reduce fear factor
  - Don't criticize "...way they did it"... *Seek 1st to Understand (Stephen Covey – 7 Habits)*
  - Focus on celebration of successful career
  - Help predecessors find role in retirement  
→ Focus on **Extending career path!**



## Transition Timetables

- ✓ What roles will transition?
- ✓ Current job descriptions and skill sets defined?
- ✓ Options for who will assume key roles
- ✓ Case Study – Livestock Manager retires
  - Duty listing
  - Successors decision-makers`



Name & Position: XXXXXX - Manager-Grain Operations

### Primary Responsibilities

- Produce, store, clean and treat seed
- Set priorities and perform maintenance and repairs of farm machinery
- Inspect and maintain field drainage systems and diversion ditches
- Propose annual cropping plan and seed varieties to be planted
- Determine needs and supervise tillage and cultivation activities
- Maintain service maintenance records on machinery
- Prepare input for cashflow budget on crop plan
- Supervise elevator storage, maintenance, and fumigations
- Coordinate seeding operations; maintain seeding records by field
- Analyze feasibility of capital investments
- Monitor inventory and restock tools, supplies, fuel, and parts
- Serve as liaison with conservation organizations on conservation projects
- Monitor adequacy of equipment line; recommend updates
- Negotiate renewal coverage for crop insurance
- Monitor weed and insect problems in crops
- Arrange for application of crop protectants
- Coordinate rock picking efforts
- Collect soil samples; arrange for fertilizer application
- Operate farm equipment during major tillage and harvest operations
- Assist in setting up the annual crop insurance plan

## Building Post Retirement Proforma Cashflow Projection

- ✓ Can be huge obstacle creating fear and retirement procrastination
- ✓ Itemize sources of income and living costs before and after retirement
- ✓ Assess adequacy of income to provide financial security and achieve retirement goals
  - See pages 58-64 Legacy Workbook



## Exit Strategy #1

"Farm" Exit Budget Illustration											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Income</b>											
Rent acres 929	\$0	\$0	\$171,865	\$171,865	\$171,865	\$190,445	\$190,445	\$190,445	\$209,025	\$209,025	\$209,025
Net farm income \$320/ac	\$288,000	\$288,000									
Social Security (2% per year)	\$14,400	\$14,688	\$14,982	\$15,281	\$15,687	\$16,219	\$16,811	\$17,411	\$18,041	\$18,729	\$19,464
RE taxes	-\$23,235	-\$23,235	-\$23,235	-\$24,163	-\$24,647	-\$25,139	-\$25,642	-\$26,156	-\$26,679	-\$27,212	-\$27,754
Fixed expenses e.g. Insurance	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000
Interest expense	-\$23,235	-\$23,235	-\$23,235	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Exit plan</b>											
Sell last crop	\$0	\$0	\$900,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sell Land	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net base income (taxable)</b>	\$249,940	\$250,228	\$1,033,922	\$156,983	\$156,865	\$175,204	\$175,019	\$174,831	\$193,219	\$193,023	\$192,827
<b>Allocation for taxes</b>											
	-\$87,479	-\$87,680	-\$134,247	-\$14,536	-\$34,487	-\$38,545	-\$38,504	-\$38,463	-\$42,508	-\$42,465	-\$42,421
Cash for living expenses	-\$45,000	-\$45,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000
Debt service (Principal)	-\$67,365	-\$67,365	-\$67,365	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Excess capital (annually)	\$50,156	\$50,344	-\$104,781	\$57,447	\$57,300	\$71,658	\$71,512	\$71,368	\$85,711	\$85,558	\$85,402
Cumulative @ 104%	\$50,156	\$102,046	\$1,026	\$59,346	\$119,020	\$195,449	\$274,782	\$357,142	\$447,139	\$540,982	\$646,927



## Exit Strategy #2

"Farm" Exit Budget Illustration											
Age	70	71	72	73	74	75	76	77	78	79	80
<b>Income</b>											
Rent acres 929	\$0	\$0	\$171,865	\$171,865	\$190,445	\$190,445	\$190,445	\$209,025	\$209,025	\$209,025	\$209,025
Net farm income \$320/ac	\$288,000	\$288,000									
Social Security (2% per year)	\$14,400	\$14,688	\$14,982	\$15,281	\$15,687	\$16,219	\$16,811	\$17,411	\$18,041	\$18,729	\$19,464
RE taxes	-\$23,235	-\$23,235	-\$23,235	-\$24,163	-\$24,647	-\$25,139	-\$25,642	-\$26,156	-\$26,679	-\$27,212	-\$27,754
Fixed expenses e.g. Insurance	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000
Interest expense	-\$23,235	-\$23,235	-\$23,235	-\$23,235	-\$16,795	-\$16,795	-\$16,795	-\$16,795	-\$16,795	-\$16,795	-\$16,795
Other income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Exit plan</b>											
Donate last crop to CRAT	\$0	\$0	\$94,950	\$94,950	\$94,950	\$94,950	\$94,950	\$94,950	\$94,950	\$94,950	\$94,950
Sell Land	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net base income (taxable)</b>	\$249,940	\$250,228	\$228,872	\$228,638	\$229,426	\$233,359	\$233,174	\$232,965	\$271,374	\$271,178	\$270,972
<b>Allocation for taxes</b>											
	-\$87,479	-\$87,680	-\$57,218	-\$57,171	-\$57,130	-\$63,340	-\$63,294	-\$63,246	-\$67,843	-\$67,794	-\$67,744
Cash for living expenses	-\$45,000	-\$45,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000
Debt service (Principal)	-\$67,365	-\$67,365	-\$67,365	-\$67,366	-\$117,300	-\$19,437	-\$19,437	-\$19,437	-\$19,437	-\$19,437	-\$19,437
Excess capital (annually)	\$50,156	\$50,344	\$39,349	\$39,215	-\$10,514	\$105,683	\$105,444	\$105,303	\$119,094	\$118,946	\$118,798
Cumulative @ 104%	\$50,156	\$102,046	\$145,966	\$191,018	\$187,730	\$300,811	\$418,309	\$540,344	\$661,061	\$827,239	\$979,123



## Exit Strategy #3

"Farm" Exit Budget Illustration											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Income</b>											
Rent acres 929	\$0	\$0	\$151,516	\$151,516	\$167,895	\$167,895	\$167,895	\$184,275	\$184,275	\$184,275	\$184,275
Net farm income \$320/ac	\$288,000	\$288,000									
Social Security (2% per year)	\$14,400	\$14,688	\$14,982	\$15,281	\$15,687	\$16,219	\$16,811	\$17,411	\$18,041	\$18,729	\$19,464
RE taxes	-\$23,235	-\$23,235	-\$20,478	-\$20,886	-\$21,302	-\$21,728	-\$22,163	-\$22,606	-\$23,058	-\$23,519	-\$23,990
Fixed expenses e.g. Insurance	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000	-\$6,000
Interest expense	-\$23,235	-\$23,235	-\$23,235								
Interest income - 50k Contract	\$0	\$0	\$10,722	\$10,722	\$10,722	\$10,722	\$10,722	\$10,722	\$10,722	\$10,722	\$10,722
<b>Exit plan</b>											
Sell 50k 110 acres (interest only) & debt	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Donate 50k 110 acres to CRAT (1,000,000)	\$0	\$0	\$94,950	\$94,950	\$94,950	\$94,950	\$94,950	\$94,950	\$94,950	\$94,950	\$94,950
<b>Net base income (taxable)</b>	\$249,940	\$250,228	\$263,490	\$267,353	\$288,076	\$305,194	\$305,947	\$306,744	\$323,877	\$324,676	\$325,490
<b>Allocation for taxes</b>											
	-\$87,479	-\$87,680	-\$110,632	-\$63,126	-\$63,377	-\$67,143	-\$67,300	-\$67,477	-\$71,263	-\$71,420	-\$71,600
Cash for living expenses	-\$45,000	-\$45,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000	-\$65,000
Debt service (Principal)	-\$67,365	-\$67,365	-\$67,365	-\$67,365	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Excess capital (annually)	\$50,156	\$50,344	-\$118,129	\$159,135	\$159,700	\$173,052	\$173,639	\$174,237	\$187,624	\$188,247	\$188,883
Cumulative @ 104%	\$50,156	\$102,046	-\$11,623	\$147,161	\$312,737	\$498,299	\$691,869	\$893,781	\$1,117,156	\$1,350,090	\$1,592,978



### Building Collaborative Team

- ✓ Assess current local advisory team; is outside facilitation needed?
  - What is your family communication culture?
  - Technical knowledge of group?
  - Potential conflicts of interest?
- ✓ Establish ground rules ... this is TEAM sport!
- ✓ Be on guard for "the sale" vs. advice & counsel; be willing to invest financially for positive plan
- ✓ See page 76 – Selecting an Adviser



### Advisory Team Candidates

- ✓ Accountant
  - ✓ Attorney
  - ✓ Insurance Agent
  - ✓ Wealth Management/Investment Advisor
  - ✓ Banker
  - ✓ Trust Officer
  - ✓ Pastor
  - ✓ Family Business consultant
- Who is your  
quarterback?**



### Compiling & Reviewing Estate Tax Exposure, Wills & Legal Agreements

- ✓ Conditions, goals, laws change May take team effort to assess estate tax risk
  - Accountant, attorney, insurance agent, banker
- ✓ Succession and Estate Planning create opportunity to dust off, review & revise – see pp 66-70



### Timely Review vs. "The Plan"?

- ✓ Plan = Blueprint for specific future actions
- ✓ Based on facts as we know them today...and expectations of future landscape ...as best we can predict today
- ✓ Guided by short & long term goals
- ✓ Fact of life: facts change, landscapes change → may dictate CHANGE in the plans
- ✓ Timely review needed to keep plans viable

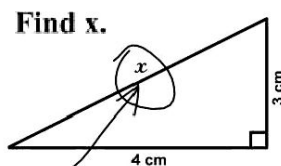


### Family Compound

- ✓ Home farm site
- ✓ Lake home
- ✓ A place to congregate
- ✓ A place to remember/appreciate the legacy
- ✓ A place to stay connected to relatives



### Finding answer not simple...




Here it is




## Take Away Thought

*Succession...*



**is a journey, not an event**



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## Resources - Farm Journal Legacy Project

- ✓ Print
- ✓ eNews
- ✓ Online
- ✓ Tools
- ✓ Live Events



**"Cultivating Multigenerational Success  
in the Agricultural Community."**



## Reads

- ✓ "Crucial Conversations" – *Patterson, Grenny et al*
- ✓ "Perpetuating the Family Business" – *John Ward*
- ✓ "Good to Great" – *Jim Collins*
- ✓ "The Enduring Legacy: Essential Family Business Values" – *Lance Woodbury*
- ✓ *Beating the Midas Curse: Pery L. Cochell & Rod Zeeb*
- ✓ *Give and Take: Adam Grant*
- ✓ *The Balance Point: Cary J. Tutelman, Larry D. Hause*



**Make "knowledge building" in family business  
excellence a lifetime journey.**

## Time for Questions...



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