



Farm Transition

Planning Today for Tomorrow's Farms

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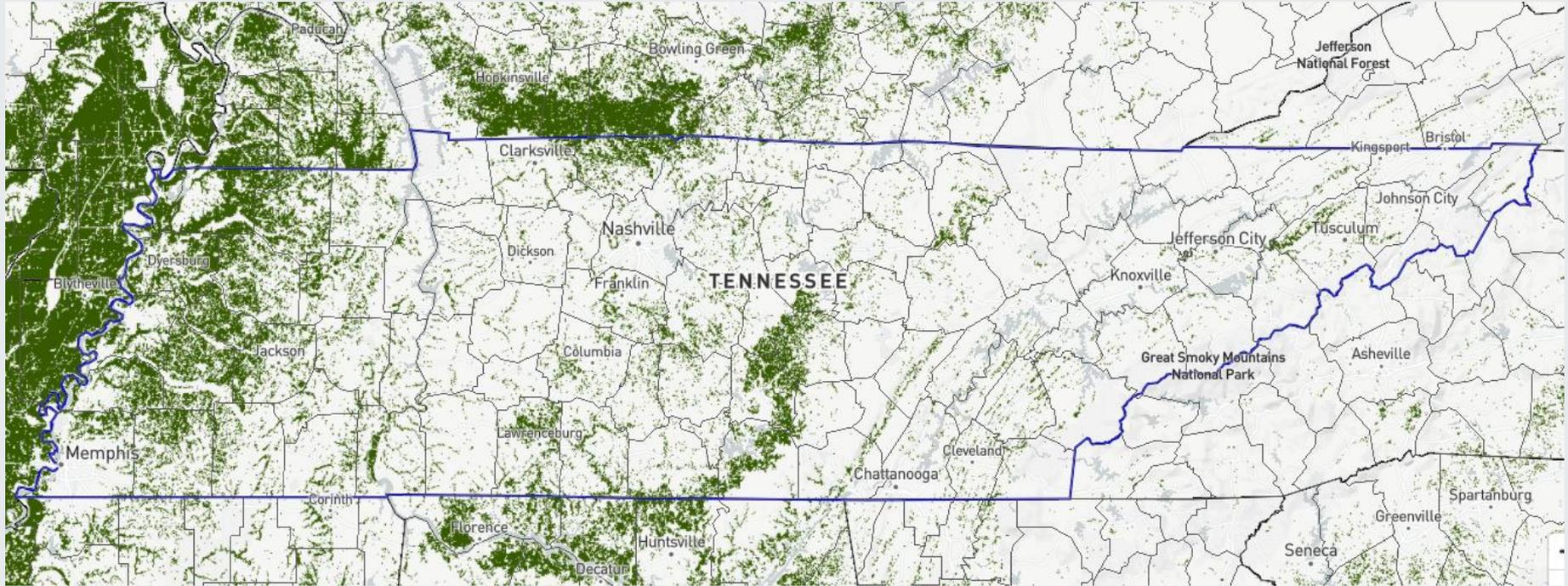
A photograph of a woman with blonde hair, wearing a blue plaid shirt and tan overalls, smiling in a field of tall grass. The text "Keeping Farmers on the Land" is overlaid in white.

Keeping Farmers on the Land

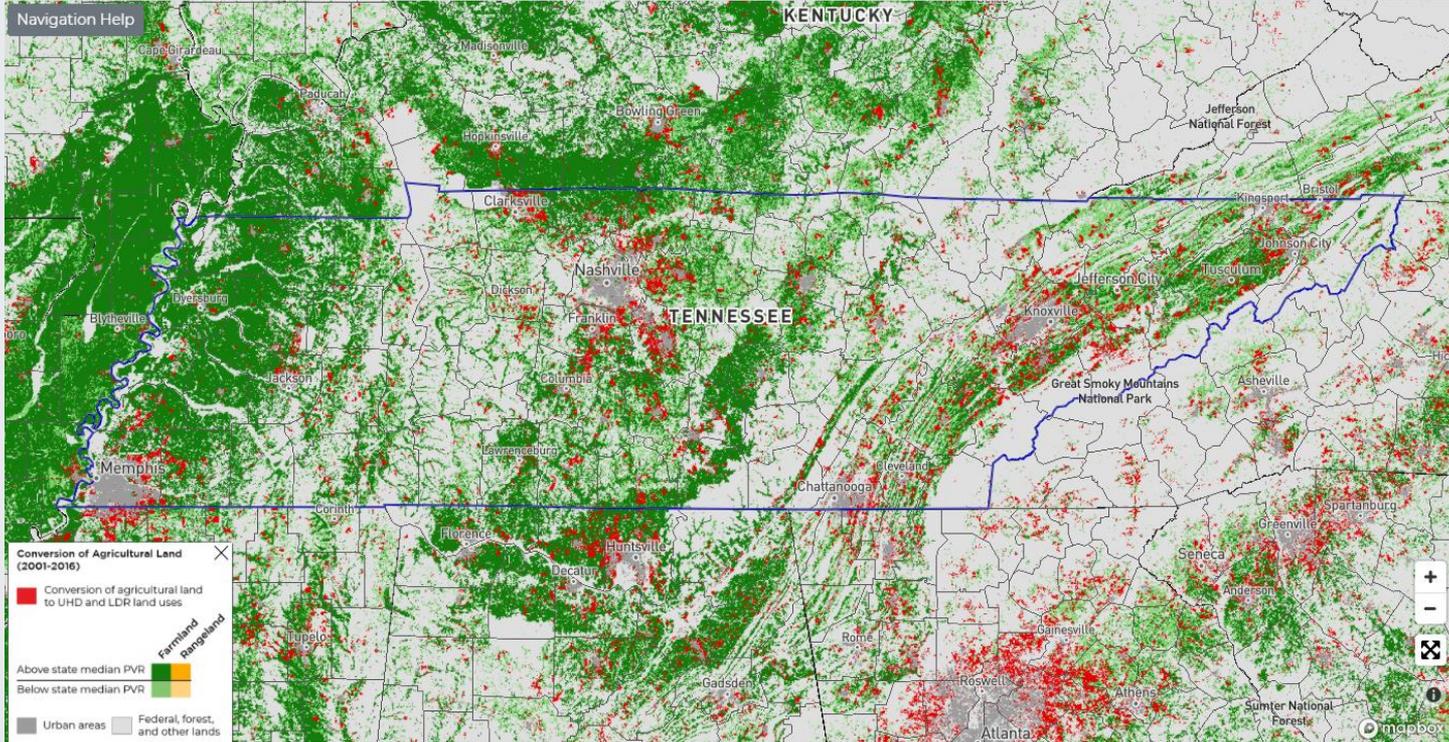
The ownership of 40 percent of America's agricultural land will be in transition within the next 15 years.

Nationally Significant Agricultural Land (2016)

4,455,900 acres in Tennessee



Development Threatens Agricultural Land



PVR Index – productivity, versatility and resiliency

2001-2016 TN lost 277,300 acres of High PVR Land of which 211,500 acres were Nationally Significant acres.

Development Threatens Agricultural Land



From 2001-2016, 659,000 acres of agricultural land were developed or comprised in Tennessee.

- * 22% Urban & highly developed
- * 78% Low-density residential



<https://farmland.org/>

Source: American Farmland Trust

<https://farmland.org/project/farms-under-threat/>



2040 Future Scenarios Tennessee



Farms Under Threat 2040: Choosing an Abundant Future mapped three scenarios of development between 2016 and 2040. If recent trends continue, **1,014,600 acres** of Tennessee's farmland will be paved over, fragmented, or converted to uses that jeopardize agriculture. **That's 8%**. Tennesseans can slash conversion, save farmland, and safeguard the future of agriculture and the environment by choosing compact development.

PROJECTED AGRICULTURAL LAND CONVERSION 2016-2040



Source:
American
Farmland Trust,
2022

On recent trends, from 2016 to 2040:

Tennesseans will pave over, fragment, or compromise

1,014,600 acres
of farmland.

52% of the conversion
will occur on Tennessee's
best land.¹

That's the equivalent of losing

8,700 farms,
\$258 million

in farm output, and

14,600 jobs

based on county averages.²

Hardest-hit counties:

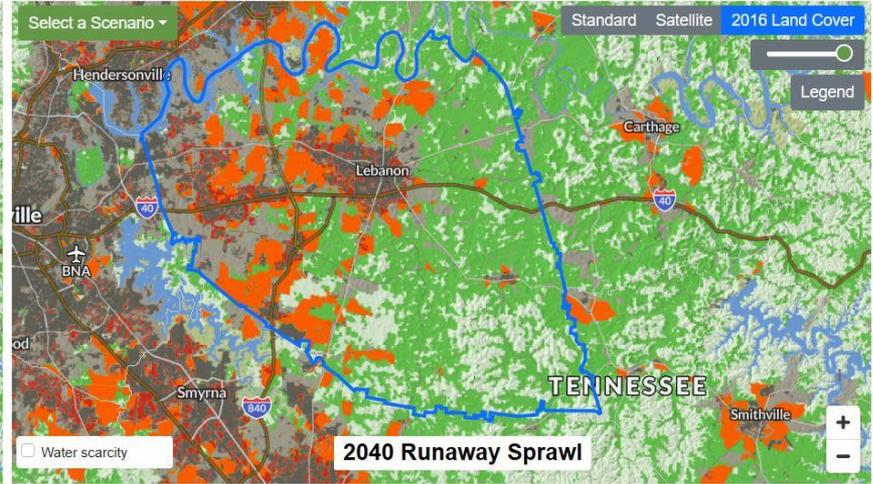
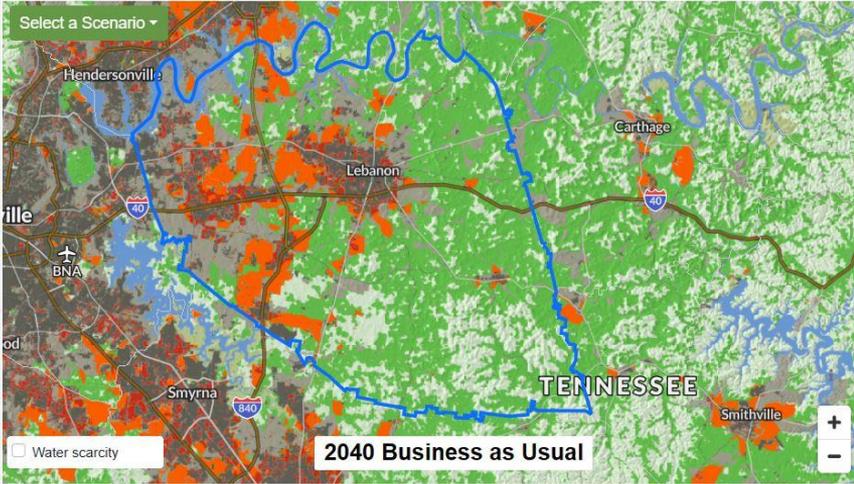
- ▶ **Rutherford**
- ▶ **Sevier**
- ▶ **Williamson**

¹ Freedgood et al. 2020

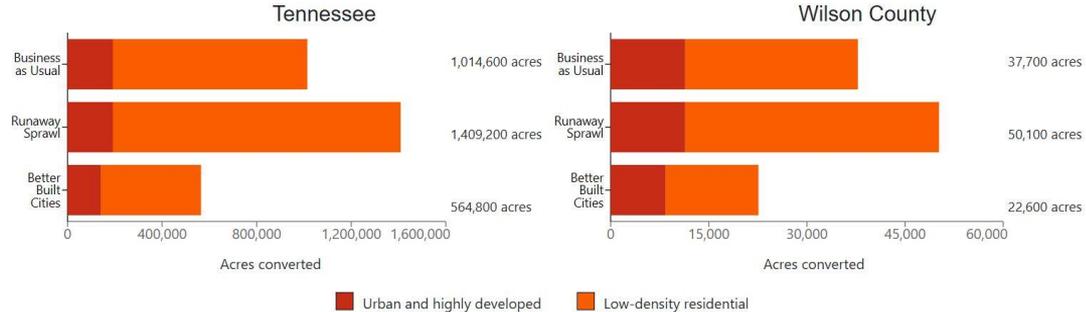
² Census of Agriculture 2017



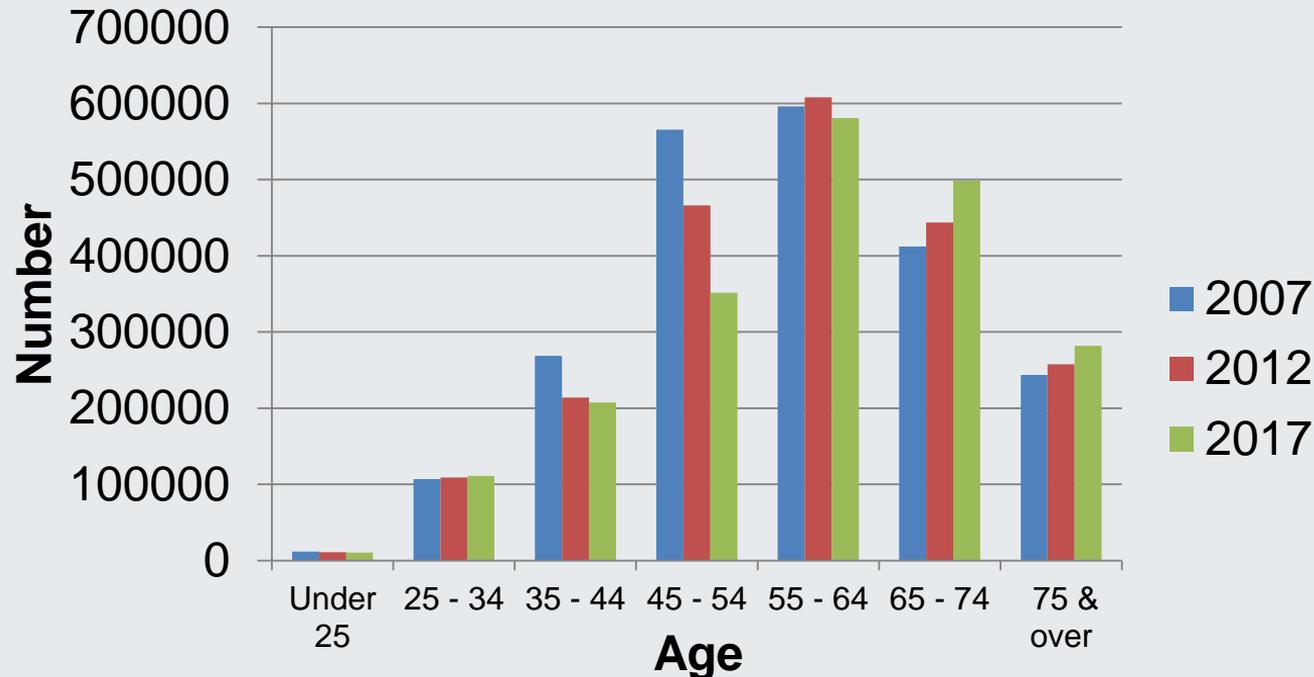
Wilson County, Tennessee



Projected Conversion of Farmland¹ from 2016-2040



Principal Farm Operators / Primary Producers by Age



2017 average age of primary producer 59.4 years (2012 = 58.3)
Average age increases approximately one year for each census cycle.
For every principle operator < 25, there are twenty-seven > 75.

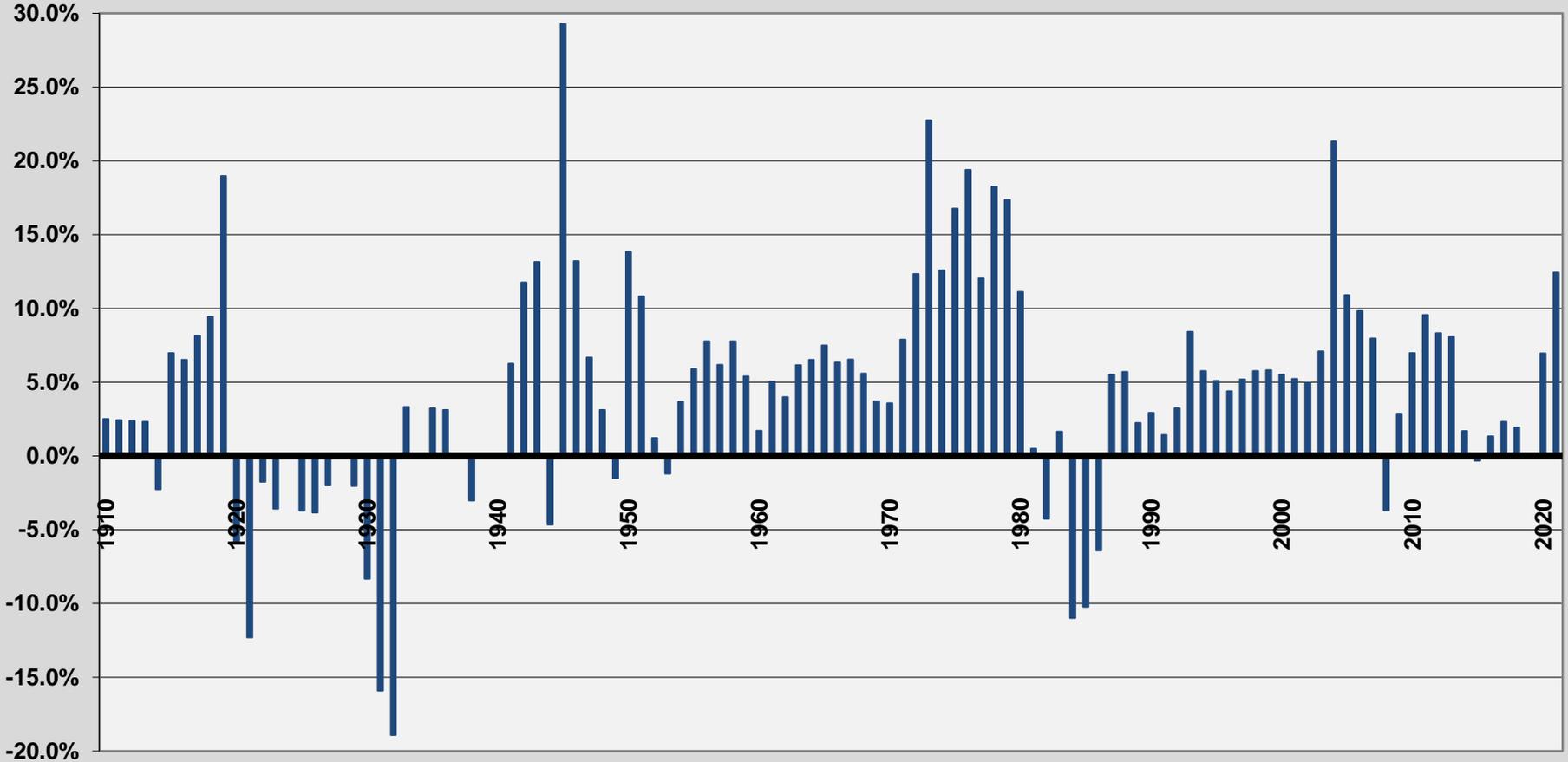
Source: 2007, 2012, 2017 Census of Agriculture

Projections



- Over the next decade **half** of the farmers will retire and will be replaced by beginning farmers (*Katchova, 2010*)
- **70%** of farm ground will change hands by 2025 (*Kohl, 2010*)
- **40%** of the ag land in the nation will be in transition within the next 15 years (*American Farmland Trust, 2020*)
- What additional factors have influenced the rate of farmland changing ownership or management?

Annual Percentage Change in US Farm Real Estate Values 1910-2022



Tradition . . .



“I firmly believe that adhering to tradition is the greatest obstacle to production agriculture.”

James A. Bennett
Sunbelt Farmer of the Year
for Virginia

Owns Three Breeds of Cattle,
900 head, Farms 2500 acres



Tradition . . .



No industry has a stronger tradition of passing on the business, and does a poorer job of accomplishing it.

- *“Home place”*
- *“5th generation farm”*
- *“Century farm”*
- *“3 generations farming together”*

Top Eleven Pitfalls in Farming



- Not knowing your Cost of Production (COP).
- No plan for transferring the farm to the next generation.
- Inadequate financial recordkeeping.
- Lack of a clearly defined business plan.
- Lack of communication.
- Avoiding or deferring taxes.
- Lack of financial reserves.
- Not managing family living expenses.
- Following your neighbor.
- Jumping on the latest/newest/hottest enterprise.
- Not training the next generation.



Bill Whittle, Extension Agent
Farm Business Mgmt. , Virginia Tech

Farm Succession Planning



“A continuous process that involves transferring knowledge, skills, labor, management, control and ownership between generations.”

Succession Planning Includes . . .



- Transition Planning
- Estate Planning
- Tax Planning
- Business Planning
- Retirement Planning
- Land Use Plan
- Management Transfer
- Family Goals
- Labor / Responsibilities
- Exit Strategy

Read what it says, not what you want it to say!!



Family Goals / Plans Communication



Goals



- 80% of Americans have no goals
- 16% have goals in their mind but never write down
- 4% write them down and make 9x more money



Source: Business Planning Lite, Dr. David Kohl, Virginia Tech

- Short term vs. Long term
- Family, Lifestyle, Business, and Financial
- Everyone contributes (communication)

Why do farm families struggle to communicate?



Common Barriers to Communication

- Lack of role separation
- Not an easy topic to discuss
- Noise and Stress
- Off-farm heirs and on-farm heirs
- Generational differences
- Personality differences
- Gender differences

Source : David Marrison OSU Extension



How can we improve family business communication?



- Start with your communication
- Take time to explain
 - Today's farm language (Avoid abbreviations)
 - Transition planning terms
- Learn about personality types and communication styles
- Hold family business meetings
 - Outside facilitators can help

Source : David Marrison OSU Extension



Succession Plan Adoption



- In the U.S.
 - Approximately **68%** of adults do not have a will
 - Source (Caring.com 2020 survey)
- Tennessee Master Farm Manager Participants (pre-program survey n=649)
 - **16%** have a farm transition plan (103 participants) (2020 & 2021)
- 2017 Census of Ag
 - Value of Land, Buildings, Machinery & Equipment in Tennessee
 - **\$48.2 Billion** (\$42.6 billion Land & Buildings, \$5.6 billion machinery & equipment)
 - What percentage of that value has a plan for transition?

Passing on the Family Business



- Your farm will one day experience transition
 - Even if there is **NO TRANSITION PLAN**
- The farm business can be transferred as
 - Ownership of assets . . .
 - **A WILL**
 - A viable farm business with a plan for continuation . . .
 - **A WAY**
- Or sale and division of assets
 - **Often AN END**



Challenges and Opportunities



- A major challenge is to determine whether the business can afford the transition.
- Often a bigger challenge is to determine how the family wants to handle the transition.
- The greatest challenge is to create and execute the transition plan.



Challenges and Opportunities

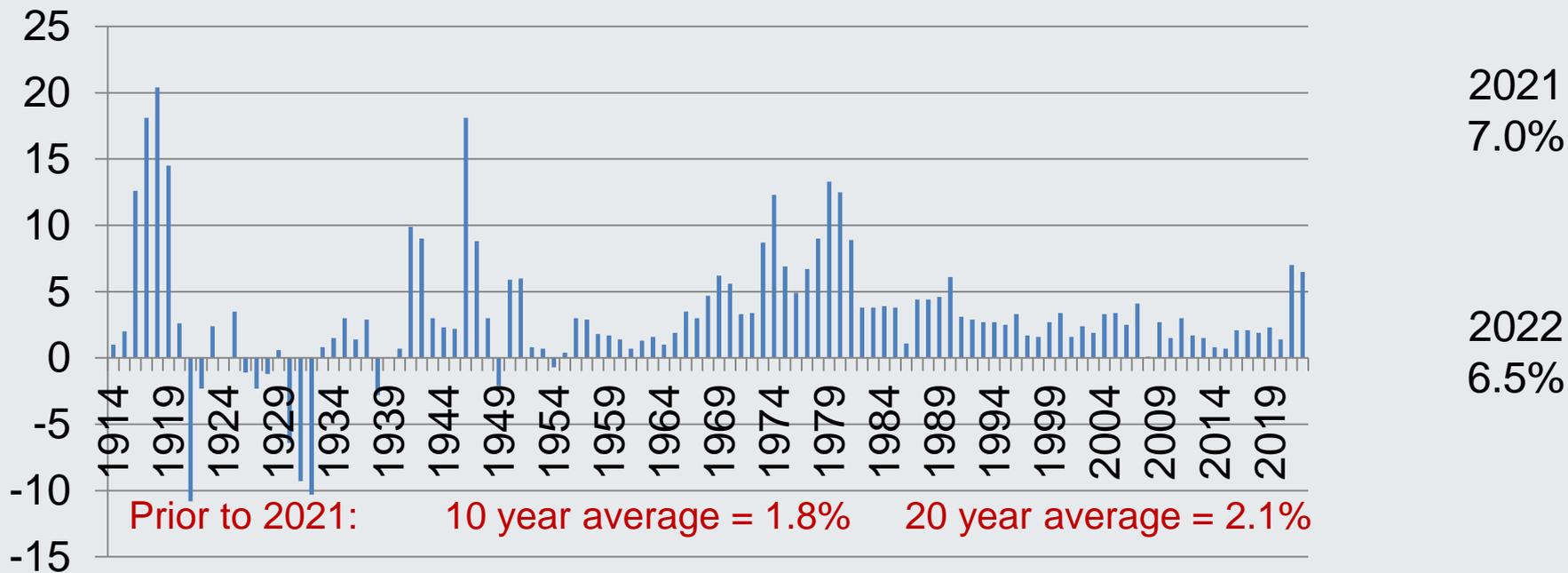


- Adequate retirement income for the parents is most likely going to be **first priority**
- Determine retirement income needs
 - What are lifestyle costs today?
 - Will any costs change when in retirement?
 - Potential costs of long term care?
 - How much income from Social Security, pensions, savings, investments, the farm?
 - Adjust for inflation

Challenges and Opportunities



100+ Years of Inflation Annual % Change of CPI



Will the farm support a transition?



- Is the farm operation profitable?
 - Sort Run / Long Run
- Is it profitable enough to support multiple generations?
- What is your desired standard of living?
- Let's focus on:
Family Living Expenses



Illinois Farm Business Management Association (October 2022)

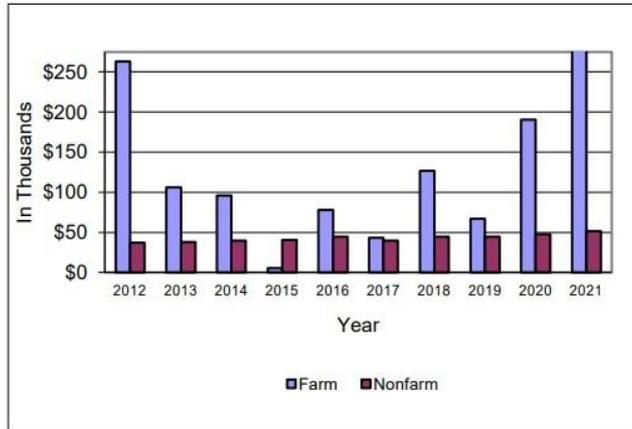


Figure 2

Net Farm and Nonfarm Income (2012 – 2021)

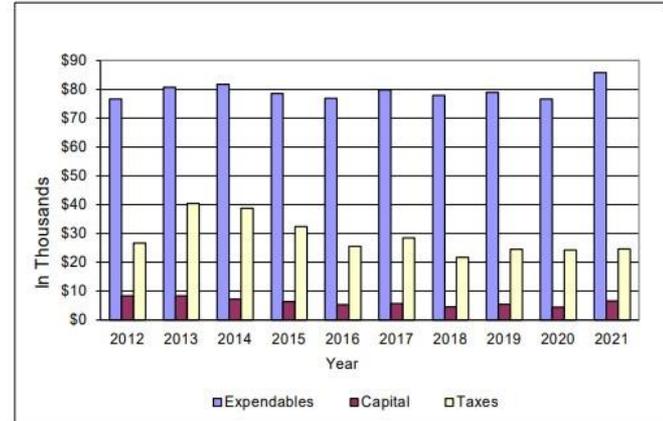


Figure 1

Noncapital and capital family living expenditures and income and social security payments (2012 – 2021)

In 2021, average non-capital family living expenses = \$85,828
 Average capital family living expenses = \$6,509
 Average income tax and social security payments = \$24,654
 1,213 farm families

Will the farm support a transition?



- Family Living: **\$100,000** plus or minus “a lot”
- Couples over the age of 65 require **25% more** in living expenses to support lifestyle compared to a 35 year old couple (Kohl)
 - Medical Costs, Travel, Grandchildren
- How does transition affect retirement planning?
- A little math. . .
 - $2 \times 3 \times 5.0 \times 365 \times 15 = \mathbf{164,250}$
 - $2 \times 3 \times 7.5 \times 365 \times 15 = \mathbf{246,375}$
- Will the farm be supporting two or more families?

Where do we start?



- **Awkward** for kids to initiate the conversation
- Starts with the **parents**
- **Reasonable** plan based on **realistic** expectations
- Lender or financial advisor may be a catalyst
- Parents, it's not just **“slowing down”**
- Develop and use a **Transition Team**
- It's not “one-and-done” – **update** periodically



The Transition Team



- To develop a plan, get advice from several different sources
- Attorney, accountant, financial planner, lender, extension educator, business consultant, communication specialist, etc.
- Functions as an advisory board
 - Ideas, technical information, evaluation, suggestions
- Hire a facilitator
- Go off-site – not a “kitchen table” discussion

Estate Planning Tools . . .



- Will
- Power of Attorney
 - Durable POA for Finances
- Advanced Care Plan
 - Medical directives/living will
- Health Care Agent
- Trusts
 - Many types
- Forms of Ownership
- IRA, 401K, Life Insurance
- Letter of Last Instruction
- Conservation Easement
- Charitable Donation
- Disability / Long Term Care Insurance
- Burial Prepayment / Insurance

Involve and Prepare the Family



- Working here does not necessarily qualify you to be the manager
- Don't protect next generation from current business problems or successes
 - Has the next generation seen the books?
- Treat siblings (heirs) fairly, not necessarily equally
 - Equal may not be possible, or desirable
 - Failure to define equal/fair is not a reason to do nothing
- Don't neglect spouses / May not be priority for some

Key to Success: Management



- Transferring ownership is easier than transferring management and leadership
- Management and leadership often have a low heritability coefficient
 - Leaders / managers are trained, not born
 - Most parents don't believe that . . .
- Identifying new management team requires input from both generations
- Managing is a continuing education process

Why transitions fail . . .

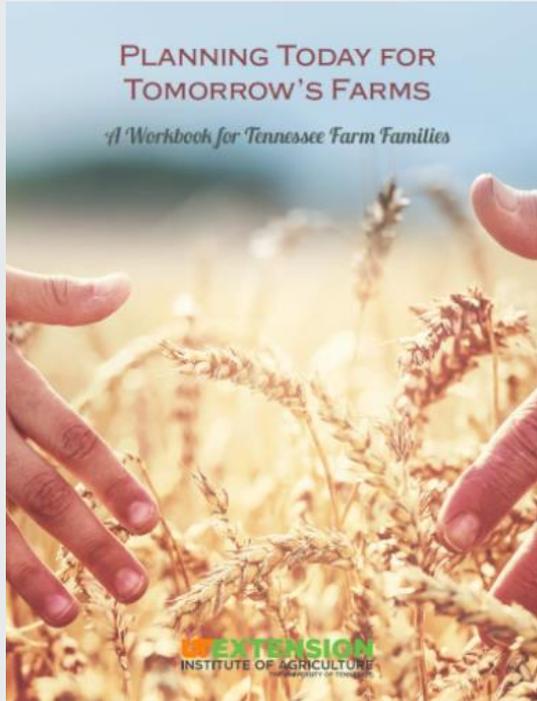


- Mixing business and family
- Strengths don't align with business needs
 - An opportunity or obligation
- Unexpected events – untimely death, marriage, divorce, weather, economy
- Lack of parental approval and affirmation
- Sibling disputes
- Failure to communicate



Additional Resources: Farmland Legacy

<https://farmlandlegacy.tennessee.edu/>



University of Minnesota

<https://agtransitions.umn.edu>

 AgTransitions

"Moving forward together."

Iowa State University
Beginning Farmer Center

<https://www.extension.iastate.edu/bfc>

Farmland Information Center

Many others

Additional Resources . . .



What My Family Should Know

Full Legal Name

Date this Booklet Completed:

Updated:

Personal Information and Citizenship

Home Address:

Business Address:

State of Legal Residence:

Additional Resources

“What My Family Should Know”

Fillable PDF File

Revisit / Update

Caution (sensitive data)

- optional
- secure

Table of Contents

What My Family Should Know	1
Personal Information and Citizenship.....	1
Social Security.....	2
Passport	2
Physical Identification	2
Marital Information	2
Medical Information.....	3
Family Records	3-4
Military Service	4
Education	4
Religious, Fraternal and Professional Organizations and Affiliations	5
Current Employment, Business Information	5
Benefits in Which I Participate	5
Former Employment, Business Information	6
Professional Advisors	7
Sources of Income and Liabilities	8
Personal Financial Information and Affairs	9-11
Frequent Flier and Loyalty Accounts.....	11
Logins, Passwords and PINs	12
Last Will and Testament.....	13
Trust Documents.....	14
Living Will.....	14
Location of Other Important Papers	14
Funeral Service Instructions & Information	15-16
Relatives and Friends Who Should Be Notified	17
Glossary	18

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Friendly Reminders



- Don't assume you will have time or feel well enough to complete your "bucket" list.
- What knowledge has not been transferred?
- Don't leave the burden of making decisions to the surviving spouse or next generation.
- Communicate! Be open about your wishes/goals.
- Talk to your kids, spouse, parents, grandparents!
- There's no time like today to start . . .

Questions . . .



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