

# Farm succession needs a plan

## GUEST EDITORIAL

By KEVIN SPAFFORD

I HAVE found that only 36% of farmers and agribusiness owners have some form of estate plan. In 47% of failures, the collapse of the family business occurred after the founder's death. These dismal facts point to the need for a farm succession plan.

It takes crisis to move from a comfort zone. In this case, it is the abrupt realization that production agriculture is shifting. If we shelter ourselves in denial and refuse to see evolution as a natural process, we curtail the opportunity for growth and the challenge to create something better.



KEVIN SPAFFORD

Business today may require a person with a penchant for entrepreneurial adventure — the type of individual who sees and understands business opportunity from both extremes of the risk-reward continuum. Consider the following questions to focus your desire. Do I have an interest in continuing to develop the viability of my farm for: profitability to support expansion; maximum valuation for sale; or a familial legacy?

### Opportunity index

Or, use this opportunity index, which may offer more appeal:

- Can the farm grow and develop?
- Would I be better off selling and walking away?
- Will keeping the farm mean I acquiesce to diminishing returns?
- What role does the farm play in my family's life?
- Are my children, grandchildren, employees and/or extended family interested in continuing the business?
- Do I see a realistic path to retirement?

### Where to begin

So where does one begin? A comprehensive succession plan will address the business needs of the farm, the desire of active family members and your retirement aspirations. Succession planning is a process, not an event. It is a healthy progression in the life of a viable family farm. It is the current owner connecting the past and the present to the future through planned transition.

My firm, Legacy by Design, builds succession plans using the framework of the following three disciplines:

■ **Manage investment.** Sometimes referred to as wealth creation, investment management builds a reservoir of financial resources to use as reinforcement through transition, a learning tool for managing money and a reserve for the uncertainties of the farming cycle. An owner/manager development system is intended to teach and reinforce leadership skills. Being an owner means being a leader, and leading is about the people you develop and the systems you install

### Key Points

- Build financial resources as back-up through transition.
- Have a fully funded retirement with date for completion.
- An estate plan is a way to minimize the estate tax bite.

for continuing success.

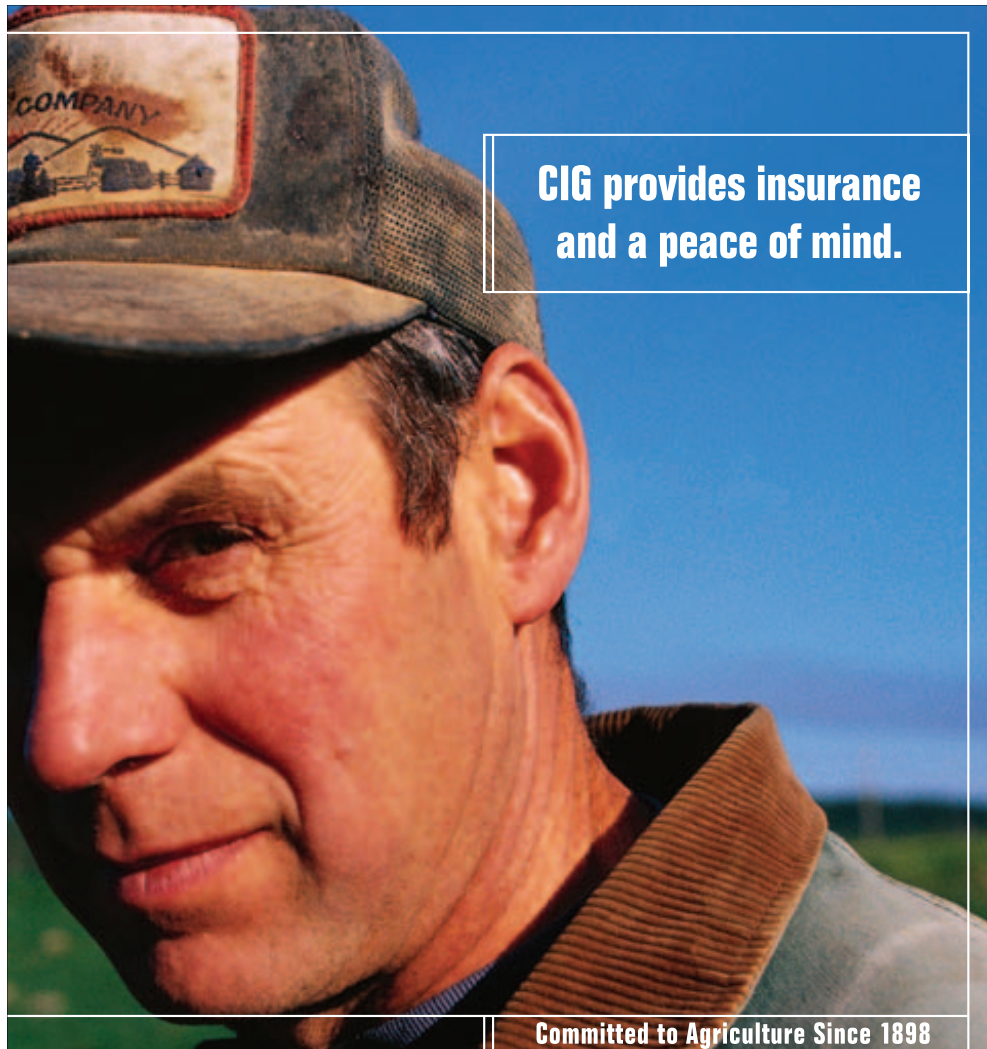
■ **Design retirement.** A fully funded retirement design, including an option date for realization, is important. Many

owners don't — or won't — retire due to an unstated lack of preparedness.

■ **Plan estate.** An estate plan minimizes the estate tax and transfers obligations while planning for an equitable distribution of assets. Full repeal of the estate tax will ostensibly remove one of the hurdles to good planning. Yet elimination is not a panacea. Planning will still be required to provide equitable distributions, and dying will still cost money, estate tax, capital gains tax or some form of transfer obligations.

I recommend a renaissance, or a new beginning, for the farm. Take the time to clearly define your goals. Success is predicated on an operating model sturdy enough to withstand a multiplicity of demands, the emotions of a family business, the needs of a dynamic industry, the demographics of a changing economy and the desires of a fickle consumer.

*Spafford is a Chico financial planner; he wrote "Legacy by Design: Succession Planning for Agribusiness Owners."*



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