

NewsWatch

Planning ahead

By FRAN O'LEARY

IT'S not easy to take a farm, pass it on to the next generation and still be a family, says Ron Hanson, professor of ag economics at the University of Nebraska.

"You have to have a plan for ownership succession for the next generation of family farmers," he told an audience of more than 175 farmers at a Transition Planning Seminar sponsored by Badgerland Farm Credit Services.

It's often difficult for parents to let go of the reins.

"Passing down ownership is one thing; control is another," he said.

The succession process results in a lot of emotional stress for all involved, Hanson said. Parents may have been born on the farm, worked on the farm their entire life, and possibly plan to be buried on the farm. Even grown children have emotions vested in the farm. Those emotions have to be discussed, and all succession issues must be resolved to everyone's agreement for successful ownership transition.

At the seminar, Hanson noted several issues families face when transition planning.

Dad's role

"Remember, Dad is wearing two hats in the family," Hanson explained. "The boss hat and the dad hat."

When wearing the "boss hat," the father is the authoritative power and the supervisor of the business. This includes treating the working family members as employees.

The "dad hat" is worn when he's caring about the needs of his family.

"Dads may have to change hats several times during that day," Hanson said, and children need to realize their father's different roles.

Dad also needs to realize his children have needs as well.

"Dad must compliment the adult children by giving praise." The dad also must realize his



TRANSITION QUESTIONS: Ron Hanson (left), professor of ag economics at the University of Nebraska, answers questions about farm transfers from Roger and Jan Kurth of Columbus at a Transition Planning Seminar held recently in Barneveld.

Key Points

- Transferring the farm takes planning and communication.
- Coming up with a fair selling price isn't easy.
- Putting a plan in writing is key to a successful transition.

children are adults and are capable of making their own decisions, Hanson said.

Who is family?

The question of who are considered real members of the family and who should be included in the decision-making process is difficult, he said. Are only blood relatives family members or are in-laws also considered part of the family?

In some cases, in an attempt to prevent divorce, parents keep in-laws on the outside, making decisions without them. Ultimately, the divorce

can still happen because the in-law wasn't included, causing a lack of respect and trust.

"What if a son dies in a tragic farming accident?" Hanson asked. "Now the mom and dad are in a partnership with the daughter-in-law. Is that daughter-in-law still part of the family?"

These problems can be avoided if the family includes the in-laws in the transition planning process.

Controlling parents

Children are often expected to do what their parents want all the time. "Some parents actually raise their children to be followers," Hanson noted. This relationship often results in no drive or ambition in the adult children, as well as a lack of new, creative ideas or goals.

Hanson said children should never feel obligated to return to the family farm. Sometimes children feel they have to go home to farm to repay a debt even when their aspirations are located somewhere else.

Transfer of ownership

The often-spoken phrase, "Someday this will all be yours," rarely ends up coming true, according to Hanson.

"If you're farming with just hope, dreams and promises, that's one heck of a gamble. These promises need to be discussed and put into writing."

Once the farm passes on to the next generation, do you think there'll be changes?

"You bet there will be," he said. Because of these changes, discussions about expectations should be talked about before so there are no surprises for either party involved.

Nonfarming children

Nonfarming children may be the most sensitive topic because parents have favorites, Hanson said. "Parents love all their children, but they still have favorites."

Parents must focus on what is fair instead of what is equal.

"Parents need to come up with an estate or succession plan that treats all the children fairly and equitably," he said. "Start talking now, and go through the planning process."

Hanson suggested parents get all their children together to let the kids express their opinions without any in-laws present. At a second meeting, invite the in-laws to join.

Throughout these family meetings, Mom and Dad must be on the same page and be able to back each other on their decisions.

Fair selling price

If the parents decide to sell the farm or part of the farm to a son or daughter, what is a fair selling price? This is a serious question because all or most

of the parents' financial investments for retirement are tied up in the farm.

Parents are also responsible for helping the adult farming children build assets while working on the family farm.

"Nobody ever made a loan on sweat equity," he said. "From day one the parents have to help those children build assets and build net worth."

If a child wants to buy the farm, they must have assets to get a loan, Hanson said. "A son or daughter can't buy a farm when all they have for collateral is a pickup truck."

Salary or wages

"Pay the children on what they contribute to the farm," Hanson recommended.

Parents and children need to discuss pay together. Many times a farm cannot support two or more families. Spouses may need to take off-farm jobs to make up the difference.

Children need to consider the cost of extras they receive by working on the farm — such as housing, vehicles and gas — and also understand these are included as part of salary or wages, according to Hanson.

Families need to come up with a plan that everyone agrees on, and put it in writing.

"Putting it in writing is key," Hanson stressed. "Always remember, farms can be replaced but farm families cannot."

Photo by Helen Persinger

What if Mom outlives Dad?

WHAT if, in the blink of an eye, Dad's gone?" asks Ron Hanson, ag economics professor at the University of Nebraska. Does everything remain the same?

That answer depends on how actively Mom is involved in the farming operation. Good communication is the key to keeping both Mom and the farming son or daughter working together effectively, he says.

Another thing Mom and the children must think about is the possibility of Mom remarrying.

Unexpected deaths raise many questions, so if Mom and Dad never discuss their wishes, this can cause large problems for the family. The same questions arise if Dad outlives Mom.