

## BARRIERS TO FARM/RANCH TRANSITION AND SUCCESSION

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## ABOUT TODAY

### Program is about:

Motivation, planning, and communications for your operations' transition and succession

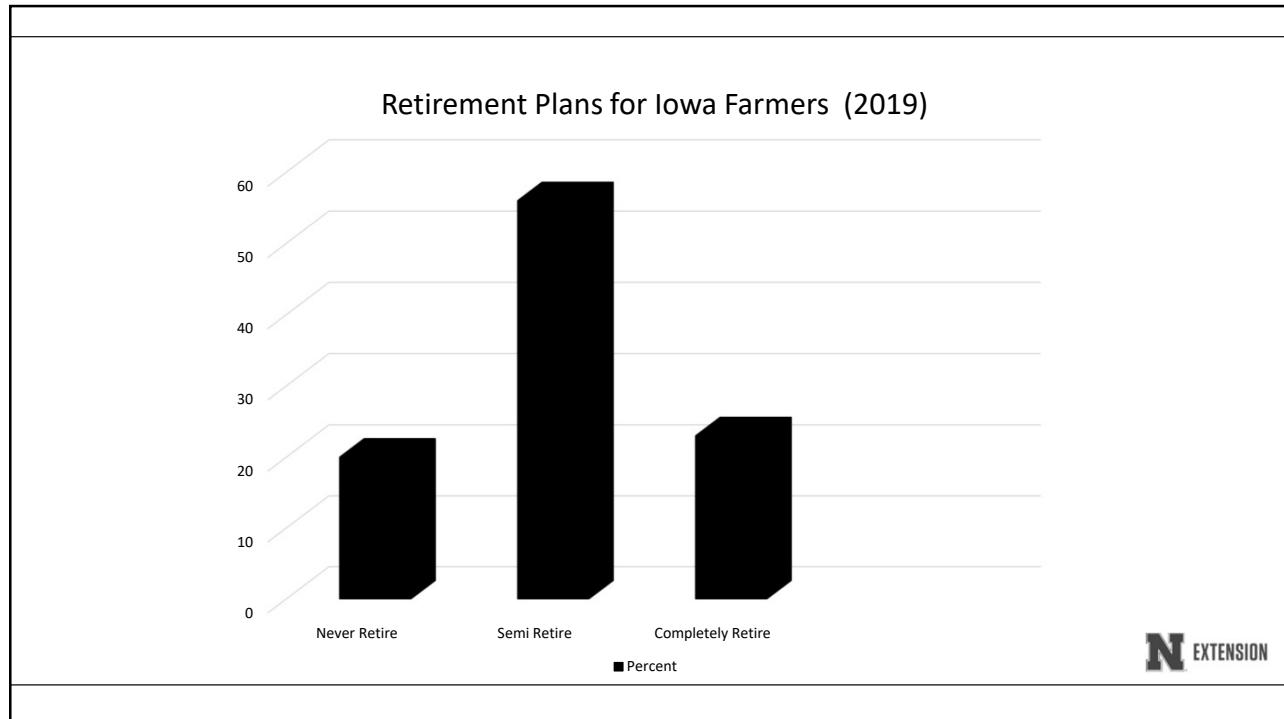
### How:

Looking at barriers which block development of an effective plan

Identifying proper steps to overcome the barriers



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## WHY ARE FARMERS RETIRING AT A LATER AGE – OR ONLY SEMI-RETIRING?

Percent of those responding either important or very important

- 75% Have a difficult time giving up control of farm
- 69% Modern equipment – allows them to farm longer
- 66% Relate retirement to their own mortality
- 62% Cannot afford to retire
- 60% Healthier longer/longer life
- 55% Don't have a successor
- 54% Don't know what else they'd do

On-line Survey, Fall, 2017

**N** EXTENSION

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## BARRIER!

Farmers/Rancher never plan to retire – so they assume that they don't need to have an estate plan



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## NOT TRYING TO EMBARRASS ANYONE INTO RETIREMENT

They are NOT planning to retire.

However, the lesson must center on the idea - which is:

No one avoids the pine box.

What happens to your stuff when you are gone?

Solution – separate retirement from estate planning!!



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## ESTATE PLANNING

- “..many farm families experience significant difficulty in discussing the future of the family farm. More often than not, planning... tends to be deferred until some critical life event occurs which forces the family to address the matter.” Kaine, et al, *Succession and Inheritance on Australian Family Farms*, TRDC Pub. #198, The Rural Development Centre, U. of New England, Armidale, NSW



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## WHY DON'T WE PLAN?

- Too complicated (we assume)
- Don't like to plan
  - It is mental 'work'
- Facing our own mortality
  - Some just don't want to think about death
- **We are afraid that if we do something, it will be wrong (in the future)**



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## BARRIER

Having a plan and needing to change it is cheaper in the long run than.....

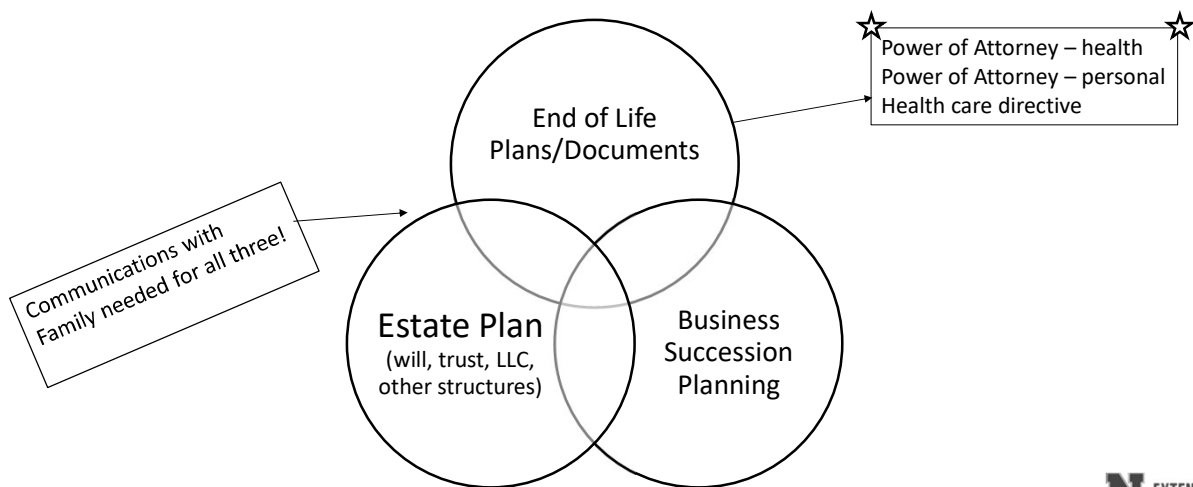
Not having a plan at all!!

Solution – understanding that almost all plans can be changed.

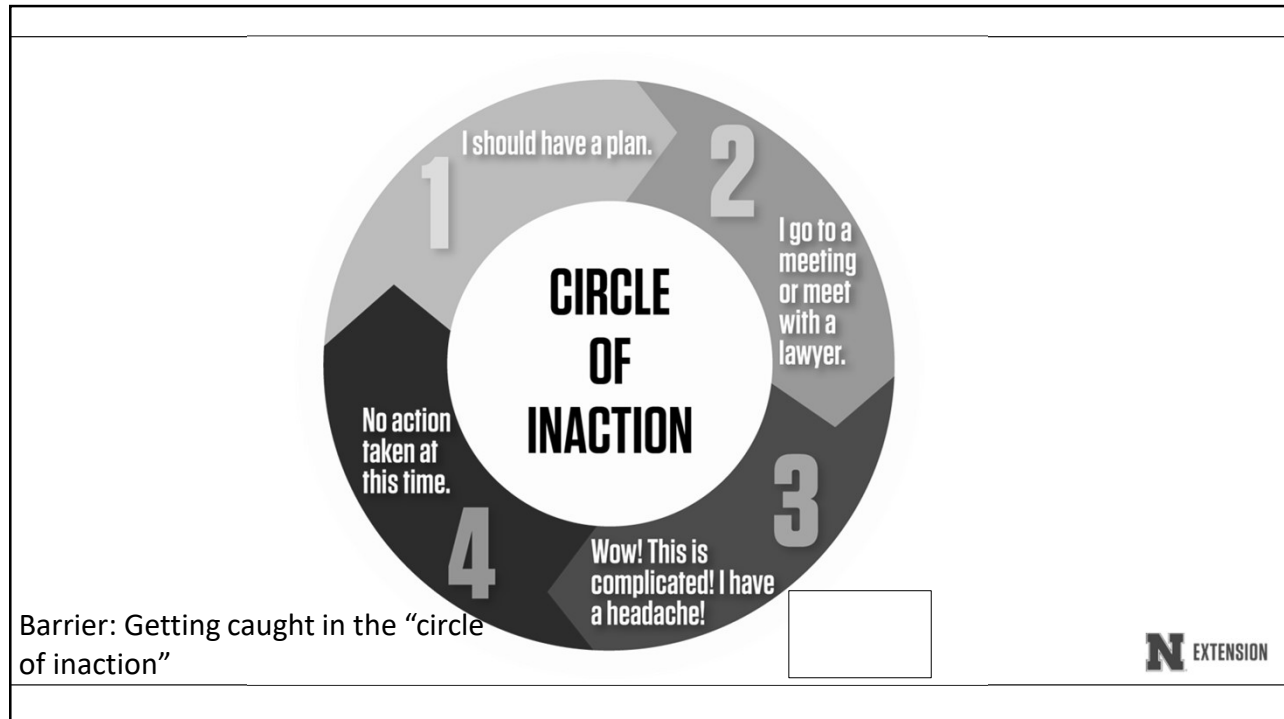


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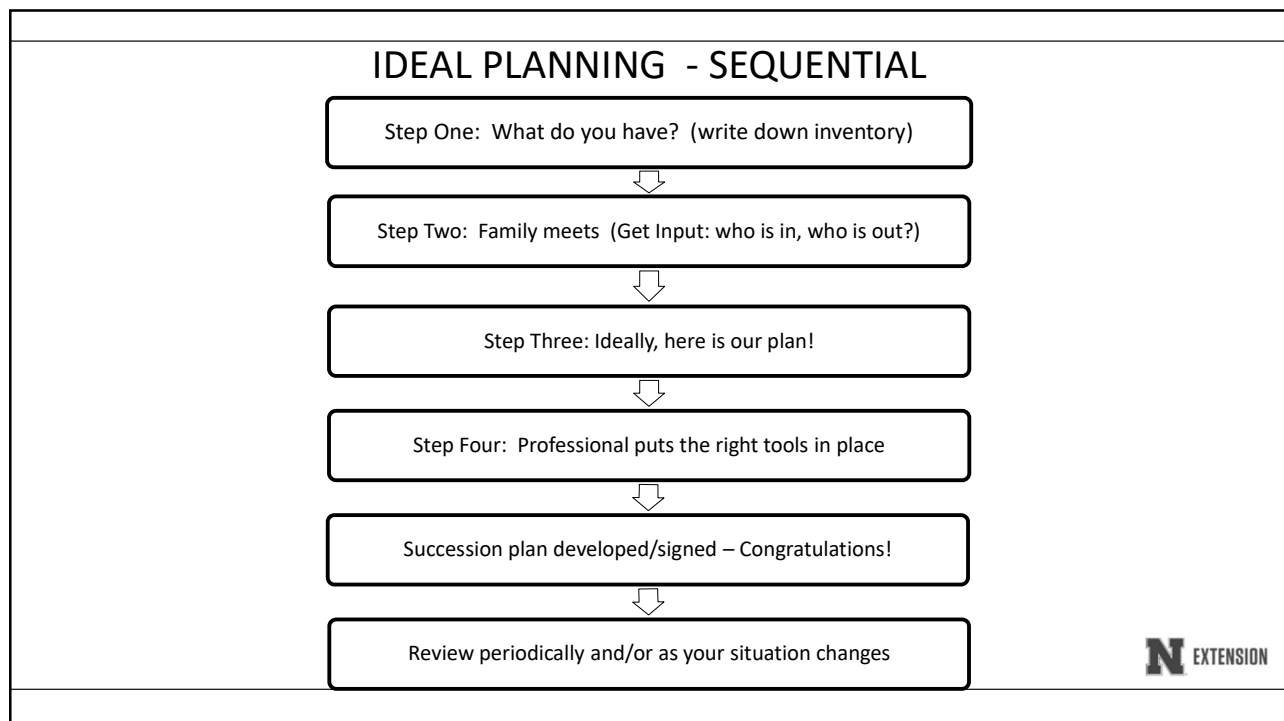
## NEAR THE END OF ANY CAREER THREE TYPES OF PLANNING



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## SOLUTION

Following the steps outlined – and plan can be done in 3-6 months  
set goals – with deadlines

The family should celebrate when you have your plan finalized



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## THE LESSON IS, PLEASE HAVE A PLAN!

No plan leads to chaos in many situations

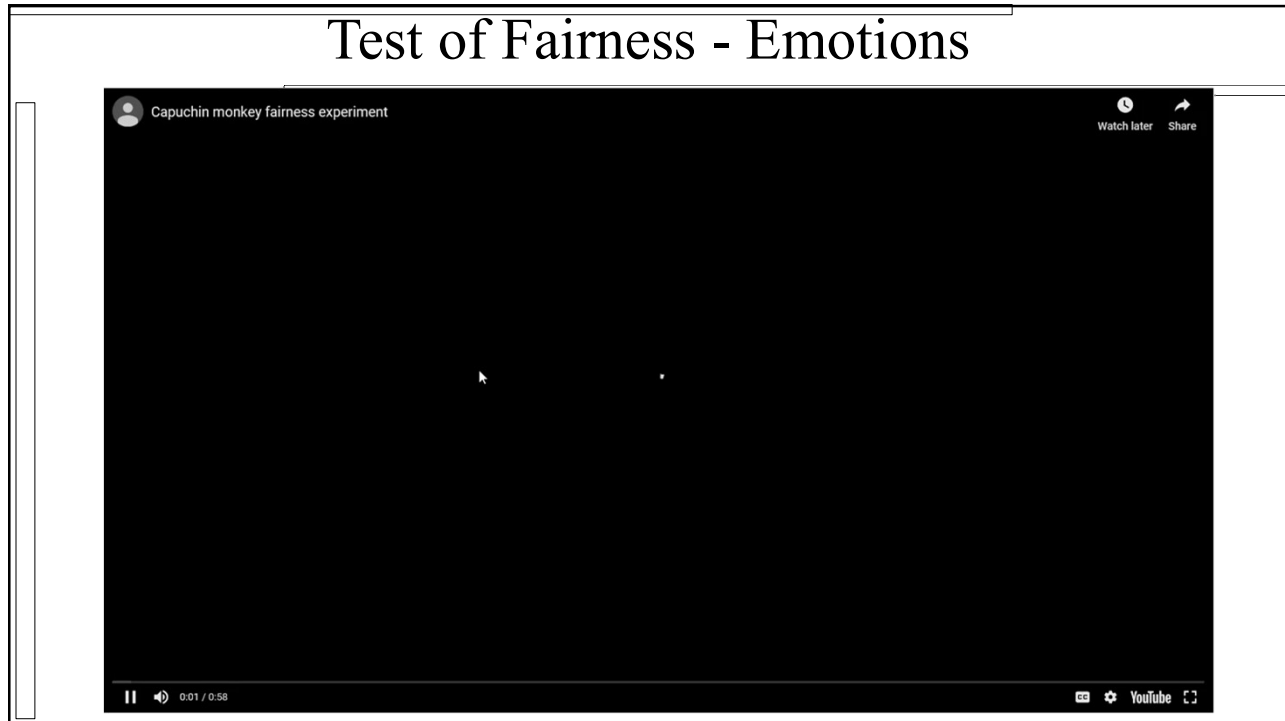
Causes greed

Splits families

See next video – monkeys!



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## TWO CONVERSATIONS REGARDING ANY ESTATE PLAN

- 1) Are Mom/Dad, or Grandpa/Grandma on same page?**  
This needs to be a priority before diving into details
  
- 2) When you are done – will you still have a family?**  
Don't make that assumption – get that commitment

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## FARM/RANCH SUCCESSION OR TRANSFER – SIMPLIFIED!

### Step one: what do you have?

- Great list of your assets/inventory/investments/everything!
- Consider using ISU Ag Decision Maker file – C4-57 Estate Planning Questionnaire
  - List how things are owned
  - List debts (if any)
  - Be very complete

## Evaluating Your Estate Plan: Estate Planning Questionnaire

*Ag Decision Maker*  
extension.iastate.edu/agdm

File C4-57

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## ADVICE:

Before going to attorney, have a detailed listing of what you have

Avoid the attorney expense of having them help you assemble the listing of your assets



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## FARM/RANCH SUCCESSION OR TRANSFER - SIMPLIFIED

### **Step two – Consider a family meeting (depends on the family)**

- Meet with family.
- Get input and find out who is interested in what.
- **No decision making!**
- Be sure you have appropriate people included.



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## FARM/RANCH SUCCESSION OR TRANSFER - SIMPLIFIED

### **Step three: what do you want to do with that?**

- In your perfect world, write down what happens to your stuff
- Instructions for the succeeding generations – let your thoughts be known
  - Keep – in family
  - Sell
  - Gift – to specific family member or to charity
  - TOD, POD (transfer or pay on death)
  - Don't care



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## FARM/RANCH SUCCESSION OR TRANSFER - SIMPLIFIED

**Step four: employ your ag professional(s) and they will make your dreams happen!**

**Consider and use these as needed for your situation**

- Lawyer
- Financial planner
- Certified farm transition specialist
- Banker
- Insurance agent
- Tax preparer (CPA, etc...)



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## BARRIER

Far too many stop the estate planning process because they don't know what tool they will ask the lawyer put in place for their situation

We should be knowledgeable about how the tools work and what terminology is used when implementing the tool

Solution:

We need to trust the professional to use the right tool for our situation – I find this is tough for some people



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## BARRIER

Setting up and inappropriate transition plan

Either we never give control to the next generation, or

We give control to fast and that causes issues for all



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## SUCCESSFUL TRANSITIONS - CONSIDERATIONS

### Older Generation

- Retirement lifestyle (money needed) – travel and other activities
- Residence – has that been discussed?
- How are you treating non-farm or non-business heirs (sons and daughters)
  - Fair vs. Equal – consider grandchildren?
  - Contribution
  - Compensation



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## SUCCESSFUL TRANSITIONS - CONSIDERATIONS

### Younger Generation

- Lifestyle (money needed)
  - Know that some in older generation don't agree with some spending
- Growth of business – at what pace?
- Attitude toward debt
- Ownership vs. Renting – may or may not have choice
- Family Time vs. Work
  - Older generation values 'work'



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## SOLUTION: PHASES OF TRANSFER TO NEXT GENERATION

### 1 - **Testing** (will the next generation do 'all' tasks?)

- Help with calving – during blizzard, nights, and weekend
- Fencing - all
- Scooping – (anything)
- High work – on ladders
- Low work – on knees or underground



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## PHASES OF TRANSFER TO NEXT GENERATION

### 2- **Management Transfer** (planned with timing)

- Once you past the 'testing', start management transfer
- Slowly – not all at once
- Put plan in place, include dates
- How does anyone learn? By making mistakes.
  - Give management to younger generation
    - Let them gain experience
    - Don't give enough to sink operation
    - Don't interfere with their decisions



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## PHASES OF TRANSFER TO NEXT GENERATION

### 3 - **Asset or Enterprise Transfer** (livestock or machinery)

- For livestock – if the next generation is helping with calving – they receive a % of the calf crop
- For either crops or livestock – use the gift tax exclusion each year
  - \$17,000 per person can be transferred or gifted per year



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## PHASES OF TRANSFER TO NEXT GENERATION

### 4. Whole Farm/Business (farmland) Transfer

- Given current tax laws, will occur at the passing of the previous owner
  - Gives next generation the stepped-up basis
  - Works for trusts and most corporations – not for sub chapter (S) corporations
- Some want to gift farmland while they are still alive
  - Be careful
  - Changes in family can be troublesome
  - Basis is not changed for gifts – can be a problem



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## OTHER THOUGHTS - TRANSITION

- Do all with written plans (that include dates)
- Include exit plans (for either generation)
- Use Job descriptions
  - Clearly define who oversees what
  - You still help each other with all tasks



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## BARRIER – PARENTS MAKE INCORRECT ASSUMPTIONS

- Our business is OUR business, it does not get shared with anyone!
- The kids all get along great now – I know that will continue.....
- I know that my children will want to keep this asset in the family – even when we are gone
- The kids will just have to figure out how to divide – I'll be gone. I don't care what happens.
- Since I have four children – my assets have to be divided 25% to each – equally – that will be the fair way to do it
- "Some day, this will all be yours!"

*Solution:* If one of these fits, look at ways to avoid the pitfalls



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## BIGGEST BARRIER OF ALL EITHER NO COMMUNICATION OR INCOMPLETE COMMUNICATION

No or ineffective communication is 90% of all problems

Either with estate planning or farm lease management



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## COMMUNICATE

- Listening is the key!
- First, understand – then to be understood
- (Practice) Make partner repeat what they thought you said – to be sure that they heard you, or that you said what you wanted to



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## COMMUNICATE (CONTINUED)

Step two:

Practice – **Asking clarifying questions**

- Listen for the answer – repeat and add a clarifying question
- Listen for answer – add another clarifying question
- Never talk about yourself or what you'd like to say



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## COMMUNICATE

- Share with non-local family
- Surprises cause problems – sweetheart deals
- Younger Generations require better communications than what we've received



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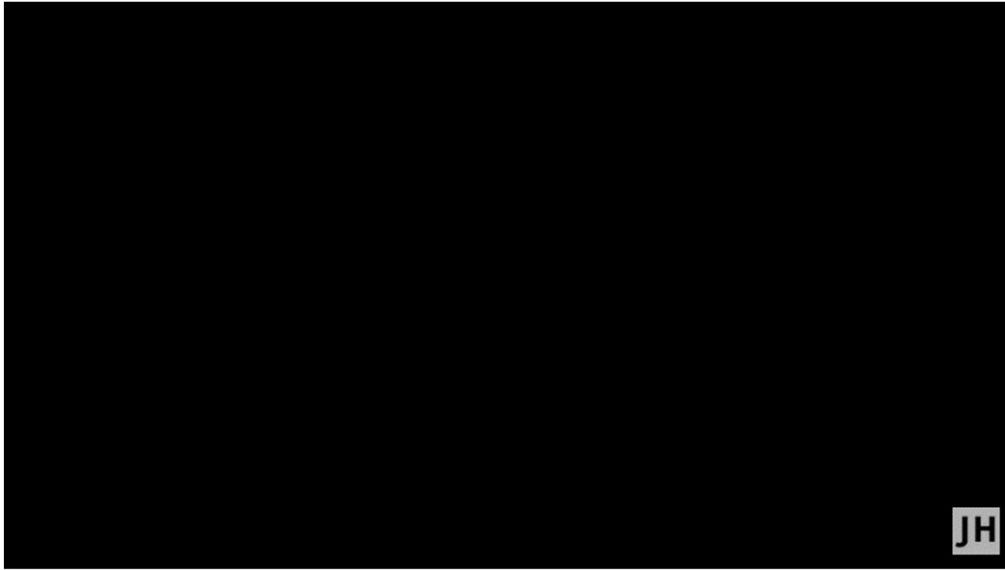
## COMMUNICATIONS MISTAKES

- Asking a question - not to find out what they will say, but to say what you wanted to say
- Making any assumption of what someone else will say
- Thinking about how we will respond while the other person is talking
- Don't judge what is being said, listen to understand
- Trying to fix an issue, without being asked (see next video)



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IT IS NOT ABOUT THE NAIL!



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## SOLUTION:

Communicate by Listening!!

Avoid Communications mistakes

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## LAST BARRIER

SOME OWM\* – ARE DIFFICULT, AND DON'T WANT TO SHARE ANYTHING

### DIFFICULT PERSONALITIES

Difficulty might be:

- Don't share personal information: This is my business and my business only – generational value typically
- Don't want to give up control – think about not being in control
- Don't want to think about death – so avoiding those thoughts
- Don't feel appreciated by other family members

\*OWM= Old White Men\*



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## SOLUTIONS: DIFFICULT PERSONALITIES

Best remedy – increase communications

- Make them feel appreciated!
- Get them to talk about something (anything else to begin with)
- Find the king maker that the king will listen to
- Give choices – ask for their preference



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## AVOID BARRIERS

### Summary:

- Avoid the assumptions that can be wrong
- Avoid circle of inaction
- Don't worry about the tool -- your professional(s) will figure that out
- Transition with a planned approach
- If one of your team is hard to work with, strategize how to proceed



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## OTHER IDEAS TO BE CONSIDERED

- \* What about rural Nebraska?
  - What is your responsibility?
  - Avoid unintended consequences
    - Community
    - Businesses
    - Churches
    - Schools
  - If you want to help your 'hometown', do it!!
  - Allan's story of 2 vs. 7 children!
- \* Difference in perception of contribution – between siblings

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## LAND LINK

- Started February 1, 2021
- Problem – two-fold
  - Land seekers don't have access to land so they can farm/ranch
  - Older generation does not have succession path  
(their children are not farming/ranching)
- Matches Land Seekers with Land Owners
- Applications will be used with both groups
- All applications will be reviewed – follow-up phone interviews will be completed
  - Possible land seeker matches will be shared with land owners to decide who they want to interview



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## IF INTERESTED IN LAND LINK

- <https://cap.unl.edu> – look for land link
- Online information and application is at this website
- Questions – contact Allan



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## NEBRASKA RESOURCES

### Nebraska Rural Response Hotline

**800-464-0258**

Call to make appointment – or get questions answered

Monthly clinics across the state

**Beginning Farmer Information (NextGen) – Nebraska**  
Department of Agriculture

**402-471-4876**



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