

## OUT-LAWS AND IN-LAWS FAMILY COMMUNICATIONS WHEN TRANSITIONING

**Allan Vyhnalek**

Extension Educator, Farm Succession

303C Filley Hall, East Campus

E-mail: [avyhnalek2@unl.edu](mailto:avyhnalek2@unl.edu)

Phone: 402-472-1771

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## TOPICS

- Why we don't like to do estate planning
  - Avoiding the circle of 'inaction'
- Assumptions parents make – that can be right or wrong assumptions
- Establishing goals for the operation and the future (transition of the operation)
- Consider using a family meeting to start the planning process
  - Set yourself up for success
- Active Communication reminders
  - Proper listening = proper communications

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## WHEN ARE WE PLANNING TO RETIRE?

20% within the next 15 years

15% later than 15 years

9% Say that they never plan to retire (maintain full control)

24% Say they plan to semi-retire (giving up some control)

21% Say they are already semi-retired (gave up some control)

So – 54% are not planning to fully retire from farming!

Nebraska survey completed in fall, 2017



## HAVE YOU IDENTIFIED POTENTIAL SUCCESSOR?

57% - Yes

43% - No

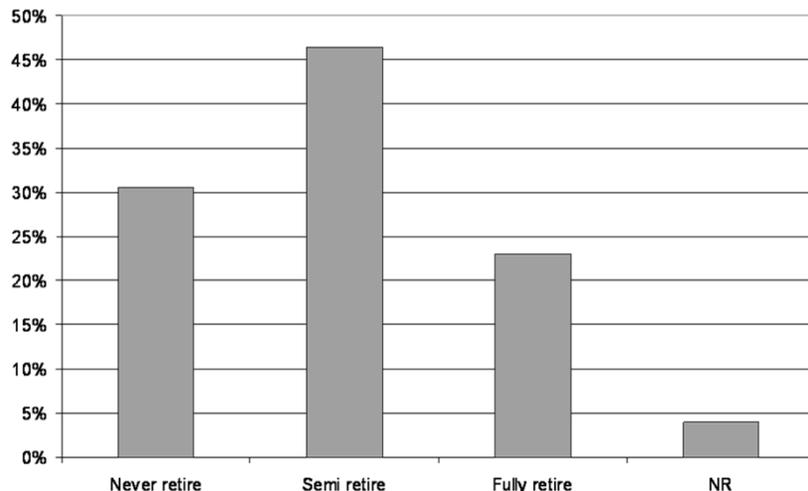
Of the 'yes' responses

87% - Identified Children as successor

Nebraska survey completed in fall, 2017



Distribution of Iowa Farmers by Retirement Plans



## 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



## 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

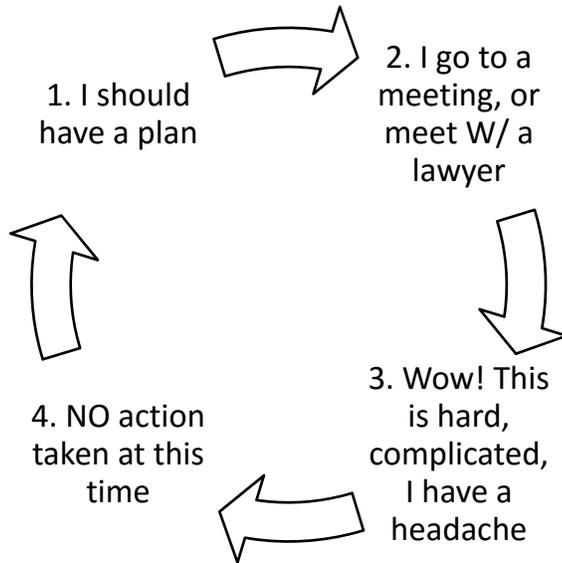


## WHY DON'T WE PLAN?

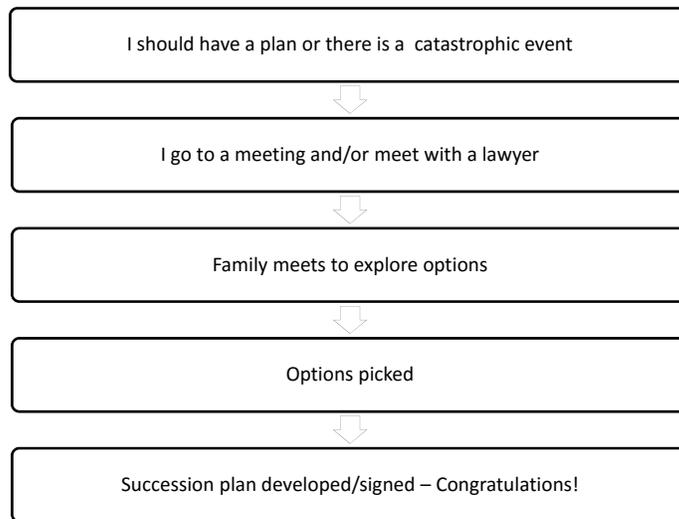
- Too Complicated (we assume)
- Don't like to Plan
  - It is mental 'work'
- Facing our own Mortality
  - Some just don't want to think about death



### Circle of Inaction



### IDEAL PLANNING - SEQUENTIAL



## CONSIDER THIS FAMILY

### **Mom and Dad have two quarters of irrigated farmland**

- Two farming Sons
- Estate plan was to get one quarter to each son
  
- Both Sons should be very pleased to receive a quarter of farmland
  
- What could go wrong?



## THE PARENT'S GENERATIONS MAKE SEVERAL ASSUMPTIONS – ARE THEY RIGHT?!!!

- 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

*In some cases – these assumptions are great – however.....*



## **FIRST CONVERSATION REGARDING ANY ESTATE PLAN**

### **When you are done – will you still have a family?**

Don't make that assumption – get that commitment

Are Mom/Dad, or Grandpa/Grandma on same page?  
that should be worked out first



## **WHAT DO YOUR ASSETS LOOK LIKE AT RETIREMENT?**

### **Begin with the end in mind!**

- Turning in the keys on retirement day – what does that operation look like?
- Who are you handing the keys to?
  - Next generation
  - Auctioneer
  - Renter
- Establish that “Vision” first



## **MAKE DECISIONS WITH THE END IN MIND**

- Do I buy another farm at 62 years old?
- Do I trade combines at 66 years old?
- Answer to both – what are your goals? What does the end (end of farming/ranching career) look like?



## **SUCCESSFUL TRANSITIONS HAVE GOALS**

### **Older Generation**

- Retirement lifestyle (money needed)
- Residence
- Nonfarm or non-business heirs
  - Fair vs. Equal
  - Contribution
  - Compensation

### **Younger Generation**

- Lifestyle (money needed)
- Growth of business
- Attitude toward debt
- Ownership vs. renting
- Family time vs. work



## PHASES OF TRANSFER TO NEXT GENERATION

1. Testing (will the next generation do 'all' tasks?)
2. Management Transfer (planned with timing)
3. Asset or Enterprise Transfer (livestock or machinery)
4. Whole Farm/Business (farmland) Transfer

Do all with written plans \* – including exit plans

\* Use Job descriptions



## GENERATIONAL VALUES

Understanding generations

What are each generation's defining characteristics?

Based on experiences during their formative years.



## THE LIVING GENERATIONS:

Matures: born 1910-1945

Baby boomers: born 1946-1964

Generation X: born 1965-1979

Millennials – (Generation Y): born 1980-2000

Generation Z: born 2001-???

Not including in today's discussion, finishing formative years

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## WHERE ARE THE VALUES?



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## COMMUNICATE

- Listening is the Key!
- First, understand – then to be understood
- Step one
  - Work in pairs
  - (Practice) Make partner repeat what they thought you said – to be sure that they heard you, or that you said what you wanted to
  - Switch roles – repeat step one

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## COMMUNICATE (CONTINUED)

Step Two:

Practice – **Asking clarifying questions**

- Work in pairs – have one person ask the other a question
- 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
  
- Switch roles – repeat step 2

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## CONSIDER A FAMILY MEETING?!

Some sort of communication will be important

- The purpose is to provide the chance for all family members to have input
- Remember – first discussion will be: “Are we going to continue to have a family or not?” **Get that commitment – don’t make the assumption**
- The Parents/Grandparents need to agree first:
  - To have a meeting
  - They agree in principal about how to proceed

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## DISCUSS IN GROUPS OF 3-5

Should families have a family meeting to discuss what happens to Grandma and Grandpa's estate?

If you were to hold a family meeting, who should be there and participate?

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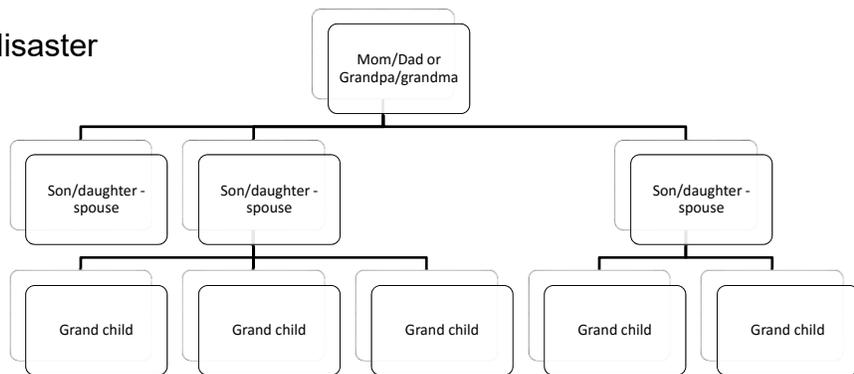
## FAMILY MEETINGS

Plan carefully to avoid disaster

Who to invite?

Meeting to let all have input

Set clear ground rules



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## FAMILY MEETINGS – GROUND RULES TO CONSIDER

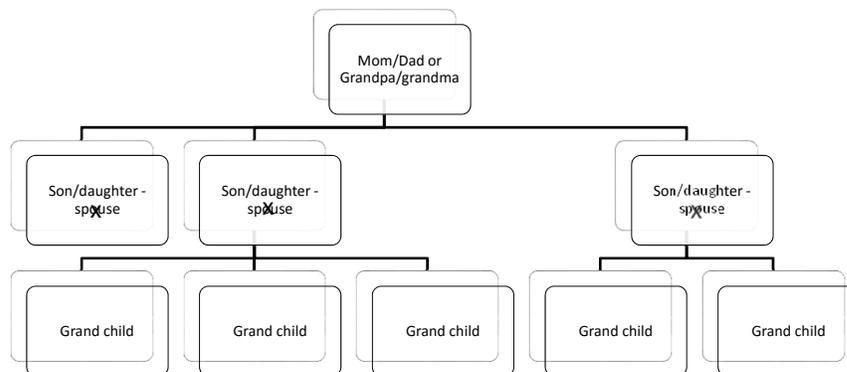
1. When considering any idea, no criticism of ideas
    - Trying to encourage input
    - Not the time for discussion or debate
  2. Put conversation limits in place
    - Each person gets one chance to discuss any one item
    - Second time to talk – only after all have had their chance
- Avoids one person talking all the time

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## FOR DECISION MAKING

### SUBSEQUENT MEETINGS

Who is at the table?



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## COMMUNICATE

- One meeting to get input – then at decision making time, use Golden Rule
- Share with non-local family
- Surprises cause problems – Sweetheart Deals
- Younger Generations require better communication than what we've received



## OTHER IDEAS: FAIR VS. EQUAL

- Fair may or may not be equal
- Perception difference – depends on point of view
- This pertains to family that have put 'sweat' equity into the business
  - They need to be adequately compensated for this contribution
- Over the years, Mom and Dad (generational value) have tended to make the pie slices equal, but is that fair?
  - In some cases – yes
  - Each situation is different – no one solution to this discussion



## (EXAMPLE) CONTRIBUTION = COMPENSATION

- Four Children
- One farm
- Instead of dividing equally, @ 25% each consider
- Dividing by 5 or 20% each
  - Farm sibling receives fifth share for their contribution – actually receives 40%
- Others receive 20% instead of 25%



## IS THERE A SUCCESSOR?

IF YES, GREAT – IF NO.....

- Farm or Business Asset/Income may leave the area
- Unintended Consequences:
  - Community
  - Businesses
  - Churches
  - Schools
- If you want to help your 'hometown', do it!!
- Allan's story of 2 vs. 7 children!



## YOUR HOMEWORK ASSIGNMENTS!

### Get your “Team” together!

- Lawyer
- Ag Banker
- Financial Advisor
- CPA
- Insurance Agent

### Items to get together - before seeing an attorney

- List of your assets  
what you own – how you own it
- What you owe (if anything)
- What do you want to do with your assets



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