Finance/Insurance

Successfully transfer farm's assets

Family Business

By LANCE WOODBURY

Key Points

- Transferring ownership of a family farm doesn't have to be turbulent.
- Not all siblings should receive the same assets from Mom and Dad.
- A combination gift/buyout could be best for the next generation.

LAST month's column focused on the management aspects of succession planning: reducing management time, letting go of decisions and assessing the management capabilities of the next generation. Now we turn to a few of the ownership aspects of succession planning — that is, transferring the actual assets (or the entities that hold the assets) to the next generation. Use three simple questions to begin navigating these potentially turbulent waters: who, when and how.

Who receives ownership?

A struggle we often see in families is the decision about who should receive ownership of the business. The parents might have both on-farm and off-farm adult children, and they want to treat their kids equally, so they split assets (particularly the land) three ways. That decision, however, might put the sons or daughters who came back to the farm at risk. What if the siblings have disagreements? What if the off-farm siblings want to sell their portion, but the on-farm siblings aren't ready to buy?

Parents should be fair while realizing that not all siblings should get the same assets. For example, consider giving cash or other nonfarm assets, instead of land or equipment, to off-farm siblings. If you do give farm-related assets to nonfarming family members, give a strong measure of control to those who returned to the farm: long-term leases on land, predetermined purchase terms should the off-farm siblings decide to sell, or voting shares of the entity that holds assets such as equipment.

When does transition take place?

There are different philosophies regarding the timing of the ownership transition, but consider this: If you were starting your own business, would you wait until the end of your career to purchase the business assets? You would most likely begin the business purchase toward the start of your career.

That doesn't mean the older generation should give the farm to the kids right when they get home from college. However, if after a reasonable amount of time (three to six years) it looks like the next generation will manage the business well, then begin planning and implementing the transition with your family and advisers.

The advantage of having this discussion relatively early is it encourages the younger generation while allowing time for the older generation to consider and fund retirement plans or vehicles that will be less farm-dependent in the future.

How does a transfer occur?

One other question to consider in our capital-intensive industry is whether to give or sell the business to the next generation. Again, there are philosophical approaches to this question, and the answer may depend on a number of factors: the financial health of the retiring generation, the "sweat equity" of those who returned to the farm, and income- and estate-tax considerations.

However, some form of purchase, perhaps combined with a gifting strategy, helps the next generation appreciate the risk and reward of business ownership. Working to get your name on the bottom line — and having some "skin in the game" — encourages a healthy combination of realism and seriousness about the business.

There is no time like the present to begin planning the ownership or management transition. If you have not discussed it as a family, you can rest assured someone is wondering what will happen. Don't get caught saying, "I wish we would have talked about this years ago!"

Woodbury works at the Garden City office of Kennedy and Coe LLC. Check out their Web site at www.kcoe.com *for more information.*

Do you have the right money habits?

On the Money

By JOHN OTTE

Key Points

- Most Americans fit into four personality profiles based on their financial habits.
- Sound money management does not come naturally; it must be learned.
- Financial success requires a strong will; sacrifice; and objective, expert advice.

AMERICANS have a wide range of financial habits, but only a handful of traits play a major role in determining who becomes financially secure and who doesn't.

Most Americans fit into four distinct and diverse financial personalities based on attitudes and behaviors that most impact their long-term personal financial achievement. They are:

- informed but cautious
- skilled and confident
- carefree and fearless
- overwhelmed

People showing what could be considered the most mature financial behavior are not, on average, the oldest, according to Putnam Investments research interviews. The research showed the most important beliefs and habits for achieving financial security are:

- realistic expectations
- resisting the temptation for quick rewards and fads
- patience in the face of adversity
- greater satisfaction from saving rather than from spending
- tolerance to above-average risk
- receptivity to investment advice

"Healthy financial behavior, like healthy physical behavior, must be learned," says William Connolly, head of Putnam retail management.

Characteristics and demographics of the four personality groups are:

Informed but cautious

Avoids investing fads
Excels at living within their means
Has realistic expectations
Defers gratification
Focuses on the long term
Is receptive to investment advice
Gets greater satisfaction from saving than from spending
Is risk averse
Average investable assets of $288,000. 30% of adults. More women; average age.

Skilled and Confident

Has realistic financial expectations
Defers gratification
Focuses on the long term
Gets greater satisfaction from saving than from spending
Is receptive to financial advice
Is risk tolerant
Is likely to have a financial plan
Average investable assets of $250,000. 24% of adults. Mostly younger, well-educated males, working.

Carefree and fearless

Is risk tolerant
Has below-average receptivity to advice
Gets below-average satisfaction from saving instead of from spending
Has below-average focus on long term
Average investable assets of $212,000. 20% of adults. Predominantly males, least educated, working.

Overwhelmed

Is most likely to avoid dealing with finances because they're intimidated and constrained by low financial resources
Has below-average confidence in financial planning for retirement
Is very concerned about running out of money in retirement
Avoids investing fads
Is most risk averse
Average investable assets of $166,000. 26% of adults. Predominantly older females, below-average educational attainment, likeliest to be retired.

Improve financial health with online test

IN conjunction with Brightwork Partners, Putnam Investments has developed a free, online 15-question quiz that matches your financial traits to those of each of the four personalities. "We want to give investors a tool for understanding how their financial habits impact their financial health. If they choose, they can use this information to change traits standing in the way of their success," says William Connolly, head of Putnam retail management.

Take the test at *www.putnam.com/survey.* Your responses will be calculated to tell you which of the four investment personality profiles fits you most closely.

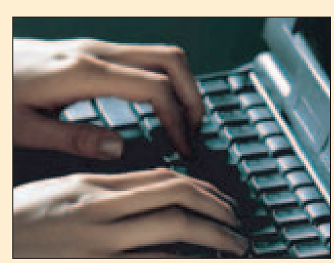
"Improving financial behavior usually isn't easy," notes Connolly. "Your first step is convincing yourself that doing so is essential to your future. Then, get expert advice and set up a disciplined plan."

List of risk-management tools updated

USDA has recently updated its list of online risk-management tools and calculators, giving producers "click of the mouse" access to a variety of reports and insurance-related information.

The Risk Management Agency offers information on insurance claims, crop policies, data from the Federal Crop Insurance Corp., laws and regulations, livestock, reinsurance agreements, and profiles of state agricultural production and related risks.

The latest list of online tools includes:



- *Actuarial document browser.* Search and retrieve various crop insurance actuarial documents and create county-by-county batch sets or individual county profiles in PDF form.
- *Premium calculator.* Calculate crop- and revenue-insurance premiums.
- *Agent and insurance-provider locator.* Find agents and providers for crop and livestock insurance.
- *Livestock reports.* Get daily coverage prices for Livestock Revenue Protection and Livestock Expected and Actual Gross Margins.

To view the new risk-management "tool box," visit *www.rma.usda.gov/tools.*