

# Thanks To Our Ag Industry

National Agriculture Week: March 23-29, 2014  
National Agriculture Day: March 25, 2014

## Passing down the farm successfully requires planning

The average age of a farm operator in the United States is 57 years, according to the U.S. Department of Agriculture's latest census of agriculture. The majority of farm operators are between 45 and 64 years old, but the fastest growing group is 65 years and older.

The many farmers in their 50s and 60s remember what it was like when the farm was handed to them initially, and in earlier times, maybe not much planning had gone into the transition, said Gregg Hadley, a farm management specialist and current assistant director for agriculture, natural resources and community development for K-State Research and Extension.

"Today, a lot of farmers and ranchers are realizing, especially with the dollar amounts that the farms and ranches are worth now, that there needs to be more of a business approach to passing on the family farm or ranch," Hadley said. Passing down the farm successfully requires much planning, Hadley said, and it's never too early to begin the planning process. He spoke on this subject in detail at the Women Managing the Farm Conference, Feb. 13-14, at Manhattan's Hilton Garden Inn. K-State Research and Extension is a sponsor of the conference.

Hadley said that while every farm or ranch situation is different, all should have a succession plan in place. Through his career in dealing with farm management

and succession issues, he identified 10 common succession beliefs, some of which are true, while others bring forth misconceptions. The 10 common beliefs include:

### 1. We don't need a detailed succession plan.

The current farm owner likely doesn't have the same business and management philosophies as the next generation's owner, Hadley said. The same is often true that the next generation's owner often has different opinions. Detail is essential in making a smooth transition.

"When you disagree about a family business that could be worth millions of dollars, you need to start planning how you're going to transfer the farm, the assets, the decision-making process and the responsibilities to the next generation," he said.

### 2. Most successions fail due to the lack of a good estate plan.

There are subtle differences between estate planning and succession planning, Hadley said. "The truth is that other issues contribute to the failure of farm succession, other than the estate plan," he said. "In fact, 85 percent of the time by some research estimates, it's not the estate plan. It has to do with family communication, relationships and business philosophy issues."

### 3. Estate planning is succession planning.

Estate planning is about how assets and wealth of the farm or ranch will be transferred to

the heirs, Hadley said, while succession planning involves discussing the estate plan in addition to establishing business philosophy rights, management and workload transference, partnership details and succession feasibility.

"Farm succession planning does take into consideration the estate planning, but it's really about the overall business," he said. "How are we going to transfer this big thing called a farm or ranch and that philosophy behind that farm or ranch to the next generation?"

### 4. Estate planning is the first step of the process.

Hadley said most people he talks to about farm succession planning believe they are finished with the process because they have an estate plan in place. He recommends estate planning as the last step. Learning how to communicate should be the first step in farm succession, followed by dealing with emotional roadblocks, and developing a business plan, financial plan and estate plan.

"Go to the estate planner with a succession and business plan, and that person can develop a synchronistic estate plan that transfers the assets in a way that fits your farm succession needs, rather than coming up with the one that fits most farms," Hadley said.

### 5. Succession planning should be conducted when the owner wants to retire.

It's not too early to start, and it's

an on-going process, as the plan should be reassessed frequently, Hadley said.

"A good point in time (to start) is when son or daughter are considering coming back to the farm as a significant part of their professional career, but really it is something that you should start as soon as possible," he said. "You never know when the five Ds—unexpected death, disease, disability, disagreements or divorce—are going to haunt you. You need to start planning, and you need to continue throughout the life of the farm or ranch, because things change along the way."

### 6. Developing a succession plan is a lengthy process.

Developing a succession plan usually takes at minimum one year, Hadley said. Several meetings should take place that involve team building, conflict management, business philosophy and strategy issues, operations, finances, decision making, transitioning work responsibility, estate planning and plan finalization.

"Even in a time when there's not a huge work demand (on the farm), carving out a half a day or so each month is a major undertaking for many farms, but that's what it takes to plan a succession," he said.

### 7. Only blood relatives should be involved in succession planning.

This subject is controversial, but Hadley said it is better to

be inclusive, as it eliminates emotional roadblocks. Possible participants might include the current owner or manager, the next generation owners and managers, non-farming heirs and spouses.

"If you exclude people from the planning process, you might be making the front-end of the discussions easier, but you're building a bigger roadblock down the road," he said. "What I tell people is, bring everybody together that you think may need to be involved at the beginning. I encourage people to have the in-laws present, and have the blood relatives who aren't interested and those who are interested in the farm present. They are all going to be affected by this, and they can always elect not to participate down the road."

### 8. Our farm won't have to change.

It is rare that a farm won't have to change, Hadley said. The farm or ranch has to pay for itself, its investment, the current owner's labor and management, and the next generation owner's labor and management. The farm or ranch might have to grow, perhaps not in size but usually economically.

"In reality, every time you come in with a new family unit to be paid, the farm needs to change in some ways," he said. "(Everyone involved) needs to be getting a competitive wage with the industry, taking into consideration that they are also building ownership equity along

the way."

### 9. Farm succession planning sessions can be stressful.

Succession planning can be stressful, and it helps to have rules that govern the planning process. Farm families, Hadley said, do a lot of things great, such as getting work done and taking care of the animals and the land. Communication among family members might not be as effective, especially if there are emotional roadblocks, past disagreements, or perceptions that parents favor one sibling over another.

"One example might be that one son drove an old model pickup, while the daughter who is also going into the farm got to drive a brand new pickup," he said. "Most people looking at that might not see it as a big issue, but it could be something that really disgruntles the people who are trying to succeed the farm."

### 10 All we need to make this work is a good lawyer.

"To think that an attorney is going to be able to cover all of the issues is really short-sided," Hadley said. "It's important to get the best human resources there to use at your disposal."

In addition to a lawyer or lawyers present, he said families should use experts that might include communication specialists, conflict management experts, counselors, mediators, financial analysts and succession planning facilitators.

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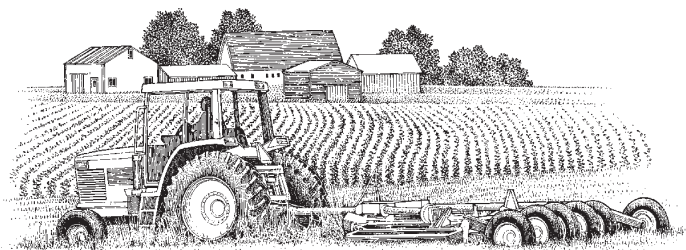
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213 S. Kansas Avenue, Norton, Kansas  
Phone: 785-877-3086