Gaining ground for farmers

Farm Succession Planning: What's Needed

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This paper is adapted from a report from Land For Good (LFG) to the World Wildlife Federation (WWF) as part of a consulting project. LFG conducted research and advised WWF and farm/ranch support organizations in the Northern Great Plains on how to improve succession planning outcomes. In this context, LFG focused on one key missing element in farm/ranch succession planning assistance.

The aging U.S. farmer[1] population is referenced with increasing concern across all regions and farm sectors. How agricultural land and operations will be transferred to the next generation is critical to the future of our food system, agriculture industries, young producers, communities and landscapes. Seventy percent of U.S. farmland will change hands in the next two decades; 11% will transfer in the next five years.[2] One-quarter of producers report that they will "retire." Farm entry and exit are flip sides of the same coin. If older farmers can't easily exit, their land can't become available to entering farmers.[3] Access to land is a top challenge for new and beginning farmers from farm and non-farm backgrounds.

As stated by USDA, "Farm succession is a key factor in the determination of industry structure and the total number of farmers."[4] It also has a key impact on land management and agricultural practices. Producers in the height of the business life cycle make decisions based in part on the perceived likelihood that the operation will continue. This "succession effect"[5] influences the current and future viability of the business, land use, and overall agricultural infrastructure.

The data reveal that only about 20% of family farms survive the transfer to the second generation; far fewer make it to the third. Why? Despite the importance of succession to U.S. agriculture, and increasing attention to these shifting demographics, too few resources and programs are in place to support farm families to do succession planning. And far too few farmers

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[1] [1] Where the term "farmer" is used, it implies both farmers and ranchers. Similarly with "farm" and "ranch." USDA, for example, uses "farmer" as a generic term that includes both. When practical in this report, the term "rancher" shall be used, along with "operator" and "producer."

[2] USDA Economic Research Service. 2014. *Tenure, Ownership and Transition of Agricultural Land Survey*. https://www.agcensus.usda.gov/Publications/TOTAL/. Retrieved 11/14/17.

[3] Parsons, Robert et al. 2010 Research Report and Recommendations from the FarmLASTS Project. P. 10.

[4] Harris, J, Michael and Ashok Mishra. 2016. *U.S. Farm Succession Plans and the Process of Transferring Land Ownership*. Prepared for presentation at the 2016 Agricultural & Applied Economics Association Annual Meeting.

[5] Calus, M and G. Van Huylenbroeck. 2008. *The succession effect within management decisions of family farms*. 12th Congress of the European Association of Agricultural Economists

and ranchers engage in this essential process. In fact, nationally, 90% of farm owners do not have an exit strategy or don't know how to develop one.[6] Without a viable transfer plan in place, farmers—or their heirs—are more likely to be forced into poor choices, putting the farm, the family, and the land at risk.

In this discussion, succession, transition, and transfer are used interchangeably although they have slightly different connotations to some. All involve aspects of the transfer of income, assets and management from an exiting producer to the next, whether in the family, or to an unrelated successor. Succession is as much about the transfer of knowledge, skills, attitudes and control as it is about the transfer of assets. Producers aspire to pass on a meaningful legacy, reflecting their values and practices to the next operator, whether or not in the family.

As all succession advisors point out, successful transitions take time to plan, and can take years to implement. Planning involves goal setting, values clarification, asset distribution, estate documents, business plans, land use and conservation, family decision-making, retirement planning and budgeting, and more.

The goals for *succession* typically include:

- Keep the land stewarded and in active agriculture
- Ensure a secure exit from farming
- Pass a viable farming/ranching opportunity to the next generation or other young producer (business continuity or potential for a new/different operation)
- Minimize negative financial impacts (asset protection, business viability, tax planning)
- Treat heirs and other stakeholders fairly
- Build from the operation's legacy with a vision for the future

The goal for *succession planning* is to set forth a path to achieve the transfer of income, assets and management that meet the producer's goals, including a secure "post-farming" life. Planning involves other family members and several advisors.

Farm transition—and planning for it—are complex. Fully solving the problems of transition requires multiple strategies. Improving the succession advisor network, tax and farm program reform, financial viability, farmer training and "matching", and land protection, for example, are all parts of the solution. In this paper, the focus is on direct services to farmers focused on the transition planning process.

The planning process can be seen having three essential components: legal; financial; and what we call managerial (a.k.a. "soft," "social" or "human resource"). The legal basket includes legal procedures and documents such as wills, POAs, trusts, operating agreements, and leases, for example. The financial basket looks at business viability, financial statements, retirement budgets, and tax angles. The managerial basket includes visioning, goals, values,

[6] Parsons, Robert et al. Ibid P. ii.

communications, family dynamics, decision-making, successor recruitment and grooming, and the transfer of management. This is the human resources aspect of transfer planning, with its focus on the “people part.” It also includes managing the transfer planning process and advisor team.

Family businesses often are driven by family loyalty and harmony—or disharmony. Some are more business-focused; they prioritize performance, results and profitability. Many are—or try to be—both. Said one farmer, “[Succession planning]… is a complicated blend of assumptions, hopes, wants and needs. … Fiscal decisions are not easily teased from subjective notions such as trust, fear, fairness and many others.” [7] While legal and financial decisions may seem daunting, it’s most often the managerial challenges that derail succession planning.

This chart summarizes the three components:

Legal	Financial	Managerial
• Wills, POA, proxies • Entity formation/ operating agreements • Tax planning • Leases • Sales • Contracts • Easements, etc.	• Financial statements • Viability/ feasibility assessment • Budgeting • Tax planning • Credit/loans • Insurance • Appraisals	• Task management • Goals, values, vision • Communications & meeting facilitation • Successor recruitment • Mentor/groom successor • Mgt. transfer • Health care • 1:1 Coaching/support • Advisor team coord.

Veteran succession advisors observe that about 10% of operations can complete succession planning on their own. Another 30-40% just won’t ever do it. (An important question is, what happens to those farms?) That leaves 50-60% who could “complete” plans. Why don’t they? The reasons are at once personal and universal. Farmers report not having enough time to plan, or not “being ready yet.” But the reasons run deeper, and are not unique to the agricultural community. Anxieties about leaving a lifelong career, loss of meaning and control, financial insecurity, family discord, bafflement around how to treat heirs, health decline, and death are common underlying themes that result in procrastination and avoidance. Layered onto that are the time and effort to meet with family and advisors, create or modify documents, or understand complex tax and legal angles, plus distrust of certain service providers, and real and perceived costs.

[7] Dyck, Toban. 10/10/2017. *Succession planning digs up raw emotions on the farm*. Financial Post, Manitoba, Canada.

Planning can take a couple of years—sometimes more. When is a plan "complete"? A completed plan is comprised of decisions and documents that result in actions that advance the producer's goals to his, her or their satisfaction. *Implementing* the plan can take a decade or more to execute a thoughtful transfer of assets and management. One implementation benchmark is when the senior relinquishes control; a second might be when assets have been transferred. These don't necessarily happen at the same time.

Under a 2017 contract with the World Wildlife Fund (WWF), Land For Good (LFG) investigated how to improve succession outcomes for ranchers in the Northern Great Plains. Over two dozen interviews with producers and service providers, and two strategy meetings with practitioners and ranchers led to identifying three key challenges in succession planning:

1. Starting to plan
2. Completing the plan
3. Addressing the managerial ("soft"/people) issues

These identified challenges confirm LFG's experience in our own succession planning work over the past 14 years. In addition to workshops and presentations, we offer one-on-one succession planning facilitation with farm families throughout New England. We conduct a three-session Farm Succession School with "homework" and several months of follow-up support. We have produced guidebooks for farmers without successors, for the junior generation and for succession advisor teams. We have conducted professional trainings for attorneys and other providers in New England and beyond, and advocated for programs and policies that foster positive farm transitions.

LFG's hypothesis seems obvious: the likelihood of a successful transfer is greatly increased with a thoughtful plan in place. Some farm operations survive an unplanned or casual transition, and the land might stay in farming. But the risks and hardships are multiplied. Some farm families agree on future vision and goals. They run fruitful family business meetings and transition to the next generation with little strife. Others need outside support. If the desired outcome is successful transfer of farms, then more must be done to assist and support the planning process *from start to finish*. To get over these three substantial hurdles, most producers need more support *and* more accountability. If you want people to do something (in this case, complete their succession planning), make it easier for them to do it.

Most producers understand the importance of succession planning, and many say they are motivated to do something. Getting farm families to an initial workshop or information session is a good start. In fact, these events—typically hosted by land grant institutions, nonprofits or industry groups—are often well attended. Becoming informed is a necessary and suitable place to start the planning process. In fact, many producers who attend succession workshops take a next step such as meeting with their spouse or lawyer. Undoubtedly, more producers should be prompted to inform and educate themselves about succession planning. This is a critical first step. There is definitely a need to get more producers "in the door."

Succession workshop formats vary quite a bit. They are often advertised as estate planning sessions, which is a draw, but not the whole picture. Workshops range from short presentations in producer conferences to multi-day sessions spread over a period of time. A few offer limited one-on-one follow-up. Some are purely educational—presenting information about entity formation, tax angles, and retirement budgeting, for example. Some events invite or require both generations to attend. Others enable attendees to engage in some initial assessment of their individual situation, coming away with completed worksheets around goals and/or finances. More intensive sessions that ask more of the participants appear to result in producers taking additional steps in their planning process, beyond "becoming informed."

Our investigations confirm that informational events, educational workshops and materials, and web resources on farm transition exist to some extent in every US region. There is a lot of potential for workshop hosts to learn more about best and innovative practices to improve and expand their educational programming in this area. These programs are an essential piece of the puzzle, and particularly effective if integrated with the additional services outlined below to move producers through the planning process.

Workshop, websites and printed information are helpful to address the first challenge—to get the process started, *but not sufficient* to get it completed. Only a small percent "cross the finish line." Starting to plan by obtaining information is not a predictor for completing a plan. In one evaluation, 79% of workshop series attendees took one additional step. Only 16% completed their planning process.[8]

All interviewees for the WWF project agreed that many more producers would complete plans if they had ongoing support and help to manage the "soft issues" and move the process along. This echoes LFG's opinion that **the most effective intervention to produce more completed succession plans is to provide sustained "managerial" support to producers.**

The planning process is daunting and time-consuming. It can get stalled and derailed. It's hard to stay motivated and to keep track. Producers who received ongoing, sustained support to move planning process along are more likely to complete the process. The more planning steps they take, the greater odds that they will have a successful transfer.

What does a "completed plan" look like? Professionals in this field cut the plan in various ways, so there is no one agreed-upon plan outline. (LFG uses its own checklist of plan components.) Nonetheless, there is broad agreement on the essential elements of a completed plan. By the very nature of succession planning, not all aspects will be enacted or resolved at a designated end to the planning process. For example, a producer may not have an identified successor, or a successor may not be adequately groomed to take over. The plan would spell out how a successor will be recruited and trained as part of the plan implementation. That said, a completed plan is a

[8] Gessner, Heather. 2013. *Sustaining the Legacy—Estate Planning and Farm Transitions: 2008-2012 Impact Report*. South Dakota State University.

recognizable outcome comprised of a set of decisions and documents. A good plan will have provisions for monitoring and updating baked into it. So, for example, if a plan gets derailed due to sudden disability or divorce, contingencies are in place.

Sustained support facilitates the execution of planning tasks and holds producers accountable for their succession planning "to do list." Did they have that family meeting? Did they complete the retirement budgeting worksheet? Have they made an asset inventory? When will they complete the job descriptions? Continued support focuses on the managerial "basket" while coordinating and integrating with the legal and financial components.

As posited above, managerial tasks include communications, family dynamics, visioning, goals and values, trust and conflict, roles, and gender issues. They also address management transfer and successor grooming (including recruitment if there is no identified successor) which are among the most challenging aspects of farm transition.

Farm succession planning requires a team approach. The team consists of the operator and his or her family, other key stakeholders and several advisors. Essential advisors include an attorney and a financial advisor who address the legal and financial components. A lender, insurance provider, and/or conservation organization may be part of the team. As a rule, these team members do not (and are not trained to) provide the services in the managerial "basket."

At present, there is no professional role or formalized skill set to assist with the managerial aspects of succession planning. Nationally, there are appropriately trained and knowledgeable attorneys and financial advisors/planners who assist with the legal and financial aspects of succession planning. But in no region are there enough. And opinions are mixed on providers' expertise, availability and, in some cases, trustworthiness. Several for-profit firms offer fee-based transition planning services, charging up to $20,000. Nationally, professional development for succession assistance is uneven and as a whole, inadequate to meet the need.

Most often it is the farm's financial advisor who sits with the family the most, and to whom such assistance falls by default. But they are not trained to facilitate difficult family meetings, conduct a goal-setting exercise or guide successor grooming. Attorneys can be sensitive to family dynamics, but in general, "Attorneys are not good at this."[9] Furthermore, listening to options and process can be inconsistent with the attorney's mandate to provide his or her client (usually the senior producer) with advice. Besides, it is not efficient to pay attorney rates to facilitate a family meeting. There's a missing piece.

The missing piece is a service or services that address three critical elements of the managerial component:

1) The actual process of completing the plan, referred to as *task management support;*

[9] National Ag Law Center webinar, November 15, 2017.

2) Facilitating the farm family’s navigation through visioning, goals, meetings, communications, family dynamics; advisor team coordination
3) Management transfer, including successor recruitment and grooming

Task management support. For this managerial element, a person is trained and brought on to keep the farmer’s planning process in motion. The task management supporter prompts and supports the farmer and family to complete identified tasks, decisions and documents such that their succession plan is considered “complete.” Farmers would work with a task management supporter over an extended period of after initial planning process steps were taken by, for example, attending a workshop, completing worksheets, or similar activities to get grounded in the topic and line up their action steps.

Workshop deliverers can play a key role in teeing up the managerial services to complete the planning that they so fervently encourage. For instance, they could build (or modify) an individual action plan component into the educational curriculum so that there is a smooth transition from a workshop to ongoing task management support leading to a completed plan.

Task management support is a relatively low-touch service that:

- Periodically contacts farmer-clients to assess progress on the to do list
- Helps identify and connect farmers with advisors
- May coordinate the client’s advisor team
- Checks off items on the Succession Planning Checklist or similar instrument
- Helps identify or affirm next steps
- Helps identify barriers and suggests strategies for overcoming them
- Tracks timeline, family and advisor tasks, and written documents

The task manager would maintain regular contact with the succession family toward executing the identified tasks. He or she would prompt and monitor farmers’ progress, checking off items toward a “completed plan.” The task manager and farm family would communicate via phone and/or email; face-to-face meetings would not be necessary. The task manager would be able to help identify other advisors and/or additional services as needed.

To perform task management services, a provider would need certain skills:

- Basic communications skills; mostly phone and electronic
- Familiarity with farming
- Basic understanding of succession planning issues and challenges
- Sensitivity to/awareness of soft issues (but not necessarily soft issue experts)
- Organization and task management
- Knowledge of the service network; ability to refer to and recruit advisors

Facilitation: The second managerial element focuses on the “soft” issues. Succession planning starts with and hinges on the soft issues and because they can be so challenging, they are often what sabotages the process early on. These challenges are common to family businesses, but can be compounded by the fact that farm families typically live where they work, and the attachment to that land (which is usually the main asset) can run generations-deep.

To effectively provide this facilitation, service providers need adequate process (“soft”) skills and knowledge such as meeting facilitation, conflict management, family dynamics, coaching, mentoring and supervision, among more. Delivering this level of managerial assistance requires more highly skilled advisors than for basic task management, and more institutional support. It is more “high touch” and would be more expensive to deliver than the basic task manager role. This type of facilitation would be distinct from specialized clinical interventions that might be required, such as counseling or special needs services, and from formal mediation.

Management transfer: As noted, management transfer is a crucial managerial task. Most service providers affirm that the transfer of management is both the toughest and least attended to component of succession planning. This is mainly due to the emotional aspects of management transfer (trust, loss of authority), as well as the tendency of many operations toward casualness (if not opaqueness) in job descriptions, supervision, and organizational decision-making. Tied into this set of challenges is senior operators’ varied notions of retirement, inadequate management grooming of the next generation, and—in many cases—absence of an identified successor.

Management transfer can be a relatively smooth and efficient transition, but it is more likely to be complex, fraught and extended. It often requires a combination of tasks and relational support including job descriptions, labor analyses, supervision regimes, mentoring, training and development programs, decision-making hierarchies, and timelines. Working through trust, independence, patience, tolerating mistakes, competition, authority tensions, etc. can be challenging under the best of conditions.

If there is no identified successor (family or otherwise), a successor recruitment plan must be developed, signaling both task and relational components. For many operations, lack of an identified successor is *the* major challenge. Finding and bringing in an “outside” successor can meet many goals and bring exciting new energy to an existing operation or give birth to a new one. It also requires additional effort, and particular attention to trust-building, family and employee feelings, and more.

LFG is familiar with many useful succession planning tools from goal-setting worksheets to business entity comparison charts to asset inventory checklists. Nearly all of these assume an intra-family transfer. There is a severe dearth of practical material on exactly *how* to transfer management and *how* to recruit and groom a successor, especially if he or she did not grow up on that farm. LFG’s guide for farmers without identified successors is one of very few products that address this increasingly significant demographic.

Who are these managerial support providers? Where are they housed? How are they trained and supervised? Can task management, facilitation and management transfer guidance roles be separate or might/should they be combined in one job or person? How are these functions financially supported? These and other major design and feasibility questions must be addressed to move from concept to practice. *The point is that there is no formal description, training or role for the support functions that many transitioning families need the most.* LFG's field agents perform some—and often all—of these tasks. We have a new funded project to deepen and formalize these functions to improve our effectiveness in meeting these needs. Our approach and the professional curriculum that results may serve as a model.

Theoretically, these functional supports could be offered separately or bundled together. A provider may be staff in an agency, NGO, university or for-profit firm or they may be independent contractors. The role(s) could be performed as an add-on by a financial planner, Extension agent, or nonprofit such as an industry or trade group or farm support organization.

Professional mediators have some of these skills, along with others useful to farm transfers. Typically a mediator's job is to resolve a specific conflict between parties. And while state Ag Mediation Programs, supported in part by the USDA Farm Services Agency, and even with an expanded in the new Farm Bill, offer valuable services, they do not as a rule help families with visioning, trust-building and management issues, for example. Their primary mandate is to mediate conflicts involving USDA farm programs and similar legal disputes.

The International Farm Transition Network offers a "farm transition coordinator" training which exposes attorneys, accountants, Extension agents and nonprofit staff to soft issue basics, along with information on entity formation and farm financial statements. While this is valuable skill-building, the "graduates" (mostly attorneys and accountants) do not typically take on the full range of managerial issues with transitioning farm families.

As mentioned above, LFG's field agents offer one-on-one "coaching" to transitioning farm families in New England. Currently, this coaching is loosely conceived as support that runs from a one-session, on-site assessment and action planning, to more than a year of comprehensive assistance that covers all the bases and results in a completed plan. In some cases the farmer pays a fee; others are supported by grants and contracts to the organization.

LFG's Farm Succession School is an approach that seeks to address the task management component. In this model, LFG field agents check in with participants after the three-session "school" and track their progress on their Succession Planning Checklist for at least six months. Ideally, at each contact, the Checklist list is reviewed, completed documents filed, tasks and decisions checked off. Barriers would be identified and strategies identified for the client to overcome them. The field agent may be tasked with identifying and referring additional advisors. Targets for each check-in are prioritized.

At the end of the contract, plan completion status will be assessed. When all (or a sufficient number of) items on the Checklist are checked off (and relevant documents assembled), the plan would be considered complete. Note that a completed plan will not necessarily have every task and decision accomplished. For example, a farm without an identified successor would have a successor recruitment plan spelled out, but actual successor recruitment can take several years. In practice, compliance with this model is uneven for various reasons.

Interviews with farmers in the Northeast and Midwest revealed that they think succession planning is important and that cost is *not* a barrier[10]. However, in reality, many farmers avoid planning because they fear the expense. Yes, attorneys cost money. Tax advice, appraisals, entity filing fees, etc. can add up. But often the perceived costs are more than the actual costs. And in most cases, the real costs—even if several thousand dollars—are a prudent investment in assets worth many times more, not to mention family harmony, emotional security future and business viability.

That said, these needed services must be paid for somehow. When ranchers and service providers in the WWF project were asked their opinion about reimbursing producers for succession planning expenses, most did not support this idea. Some argued that people tend to be more committed to something if they have some "skin in the game." Others suggested that producers would be less likely to trust the offer—even to take offense.

Regardless of how these specialized services are offered and supported, their success depends in large part on the effective functioning of other parts of that system. Most pertinent are the availability and proficiency of advisors who will be called upon to assist ranchers as part of their advisor team. For this critical managerial missing link in the process to work, even without a formal "coach," attorneys, accountants, ranch financial planners and other experts must be findable, suitable, and bought into a coordinated team. LFG's farm succession advising professional development events, and its online directory, the Farm Transfer Network of New England contribute to building the service network. Another essential component is the workshop or one-on-one session that gets the process started and tees up the action steps that for the basis for the sustained support.

Farm succession is a resource-intensive and complicated process. It is accomplished one farm at a time. To address the need, more must be done to support farmers and farm families. The needed intervention requires more than a one-farm-at-a-time approach. "*We must make sure this generational transition happens at a landscape scale, or we lose something precious and dear to all of us, city dweller and rural citizen alike*."[11] The service community has an opportunity—and an urgent call—to create an effective response to farmers' most pressing need for succession planning assistance.

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[10] Aschkenase, Therese, A. Babbitt and J. Wilbur. 2011. *FarmLASTS 2011 Exiting Farmer Survey Results, Research Report.* Land For Good, unpublished

[11] Bryant, Fred. Texas A&M University. https://igrow.org/up/resources/07-2006-2012.pdf retrieved 11/3/17.

Succession Planning Flow Chart

1. Gather information and education

(workshop(s), initial planning session)

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2. Build a support team & Identify goals and tasks

Identify legal, financial and managerial advisors

Convene stakeholders; identify goals & tasks

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3. Work through tasks and scenarios; make decisions

Bring in family and other stakeholders, advisors and experts as needed

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4. Complete Plan

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5. Implement Plan

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6. Monitor and Update Plan