



The Mechanics of Legacy Building

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fugit inreparabile tempus

\$1T/yr

**Rate of U.S. wealth transfers
from Baby Boomers**

\$1.9M

Above rate, per minute

\$1.27M

Average U.S. farm net worth

1.58

Farm transitions per minute

64%

**Farm/agribusiness owners
with no estate planning tools**

88%

**Farm/agribusiness owners
with no retirement plan**



G1

30%

G2

12%

G3

3%

G4

No estate plan

Insufficient capitalization

Failure to prepare next generation

Source: Spafford, 2006





Five steps to a successful transition

- 1. Determine where you are now**
- 2. Communicate with stakeholders**
- 3. Develop a business succession plan**
- 4. Develop a plan for your estate / gifts**
- 5. Deploy your plans / evaluate / revise**

• **A**

• **B**

**Mission
Statement**



Core Values



**Vision
Statement**







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- Who: ALL stakeholders
- What: a talk about the farm
- When: NOT a holiday
- Where:
 - A comfortable place
 - NOT anyone's home
 - Free of distractions
- Why?
 - Now: A conversation
 - Later: A plan









BUSH'S STAR-CROSSED TRIP

TIME



**Why Are
Men and
Women
Different?**

It isn't just upbringing.
New studies show
they are born that way.



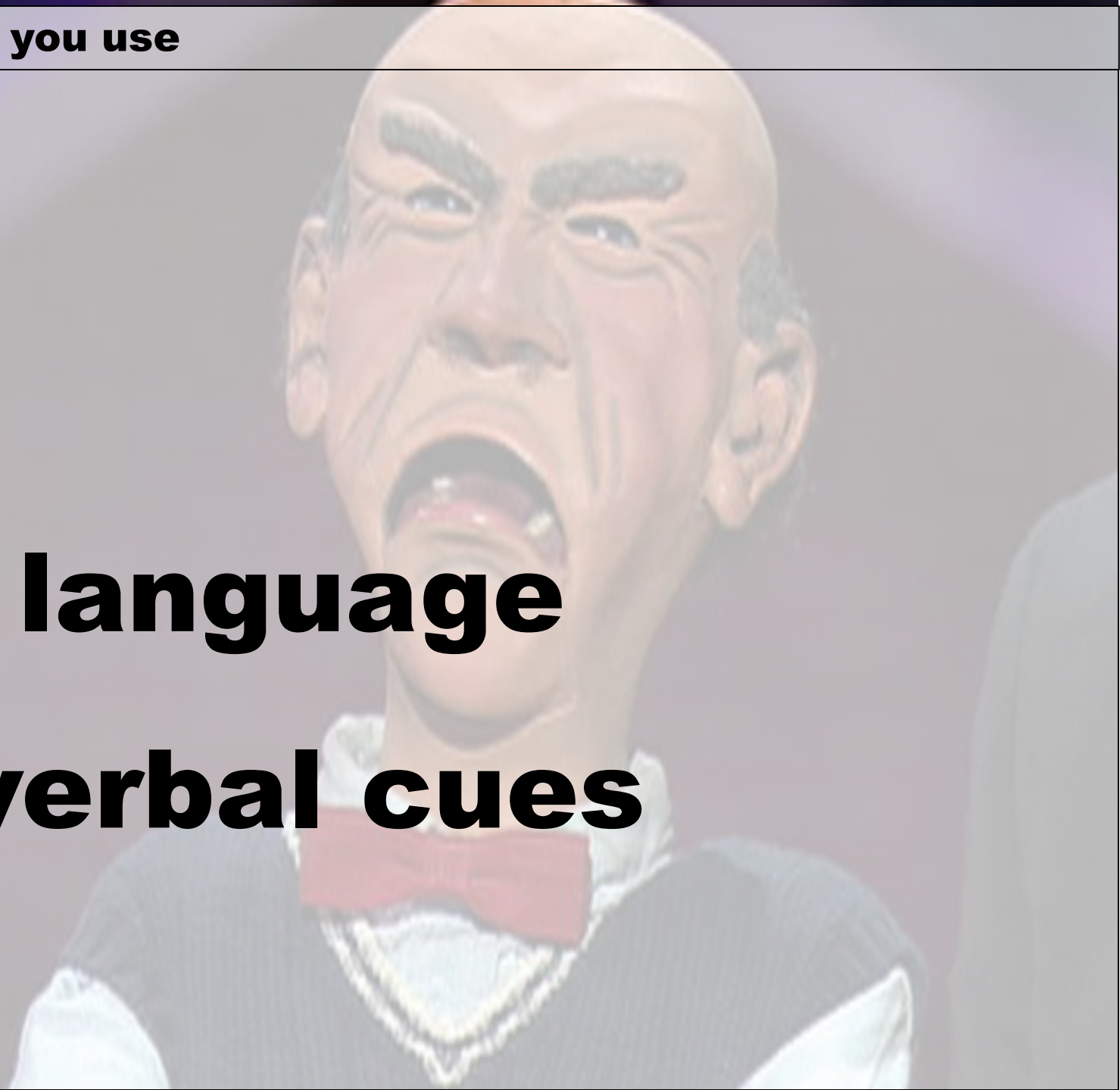
7%: the words you use

93%:

Tone

Body language

Non-verbal cues



You gotta fight... for your right...

**....to have meaningful, open discussions
about farm transition planning!**

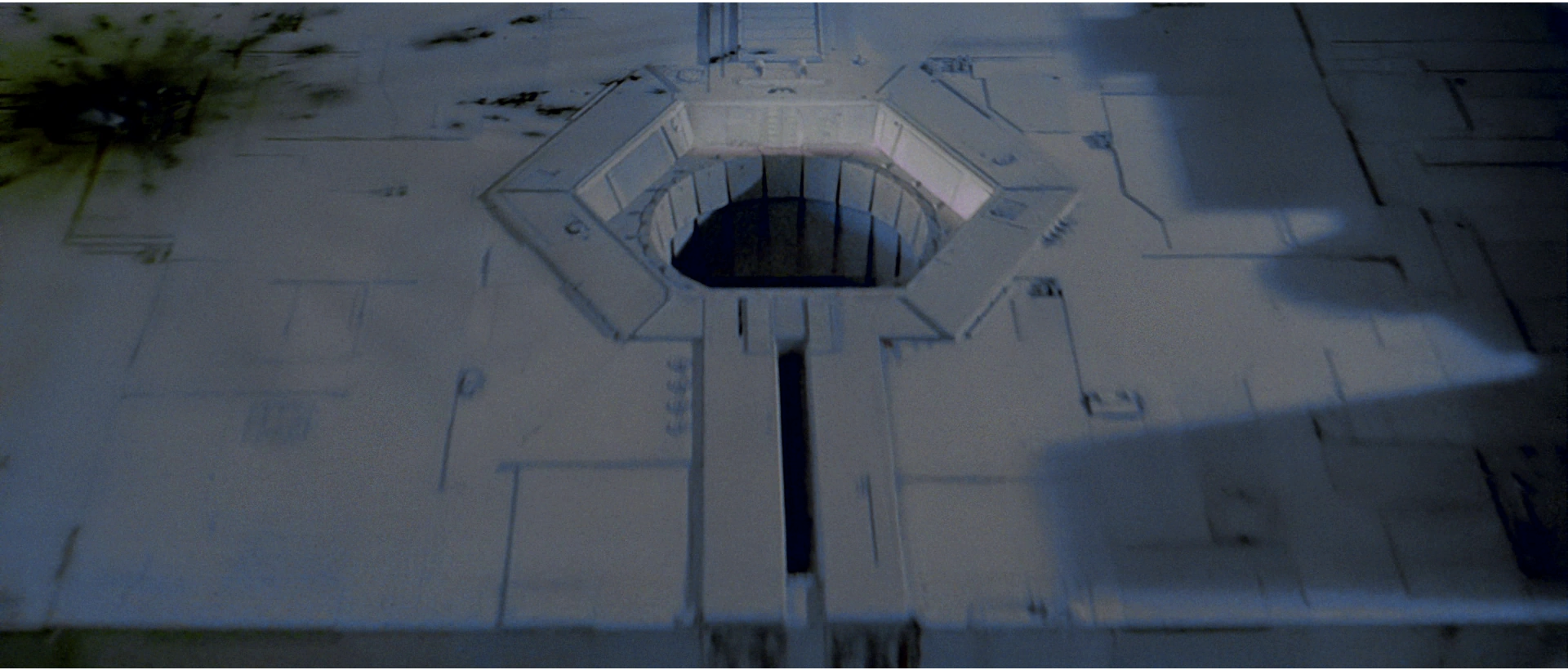


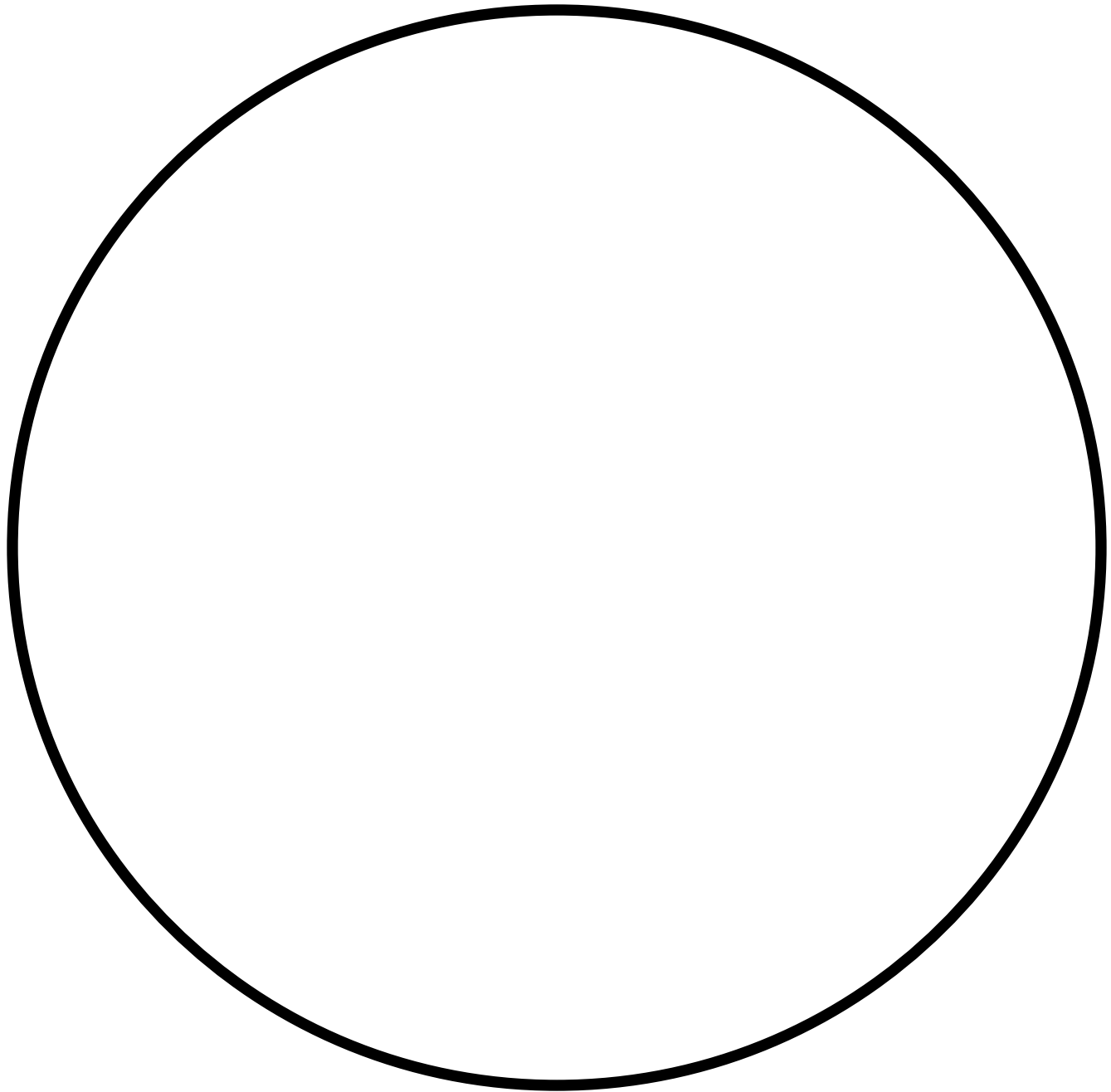
Mark 6:4

Jesus said to them, “A prophet is not without honor except in his hometown and among his own relatives and in his own household.”

Ferrell’s corollary:

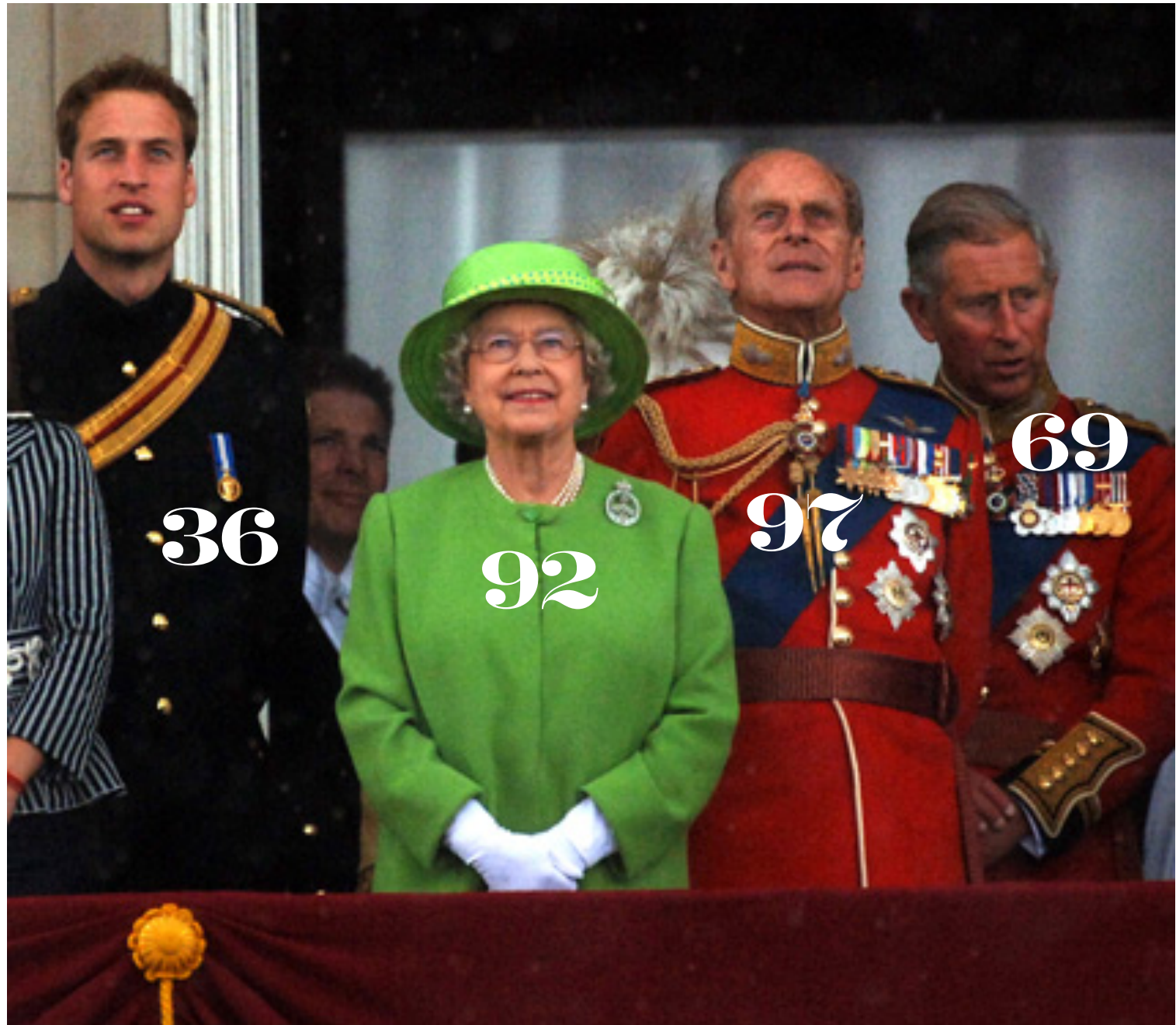
You cannot regard someone as an expert if you have changed their diaper.





Five steps to a successful transition

- 1. Determine where you are now**
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36

92

97

69



The Ballad of Bill and the Gator



My 1st
Classic
Story

The Country Mouse and the City Mouse

A retelling of Aesop's Fable by Eric Blair



Sell it

Lease it

Move it through entity

Transfer at death

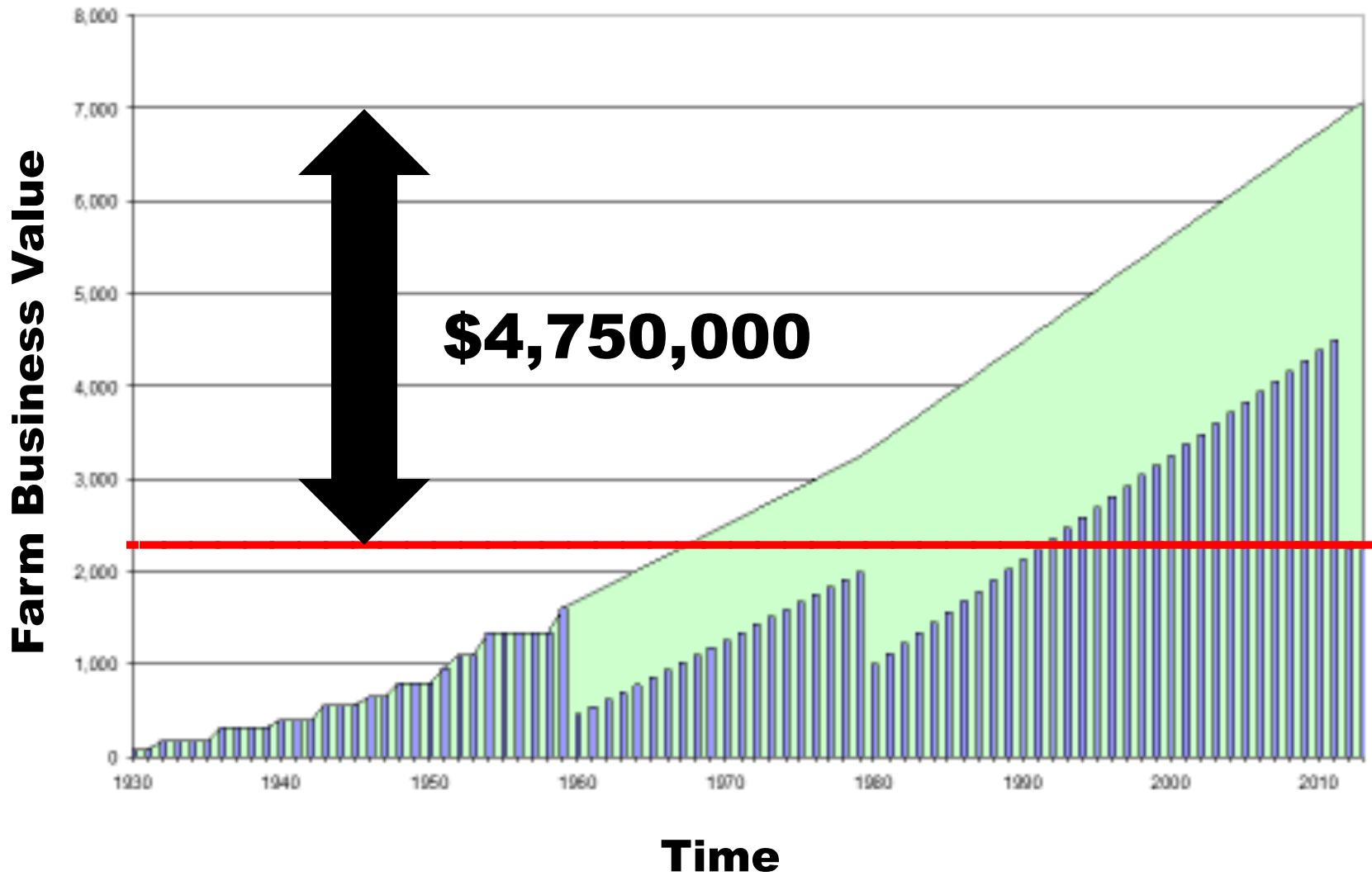


Illustration courtesy Dick Wittman, Wittman Consulting

The Farm

- Family: Mom, Dad, Farm Kid, City Kid
Everyone lives on the averages
- Representative Indiana farm derived from
KFMA South Central and Southeast
Associations
- Targeted \$100,000 NFI as estimation of
commercial farm for 1.0 FTE operator
supported by family labor

The Farm

- 100% of income from crop operations
- 33% owned land, 67% leased land
- NFI: \$100,000
- NFI ratio: 15%
- Value of farm production: \$660,000
- Asset turnover ratio: 20%
- Family living: \$70,000
- Off-farm income: \$44,165

The Farm Balance Sheet

Assets		Liabilities	
“Operating” assets		(None)	
Breeding livestock	\$0		
Equipment	\$500,000		
Total “operating” assets	\$500,000		
Buildings	\$100,000		
Land	\$2,700,000	Owners’ Equity	\$3,300,000
Total Assets	\$3,300,000	Liabilities + OE	\$3,300,000

Scenario 1:

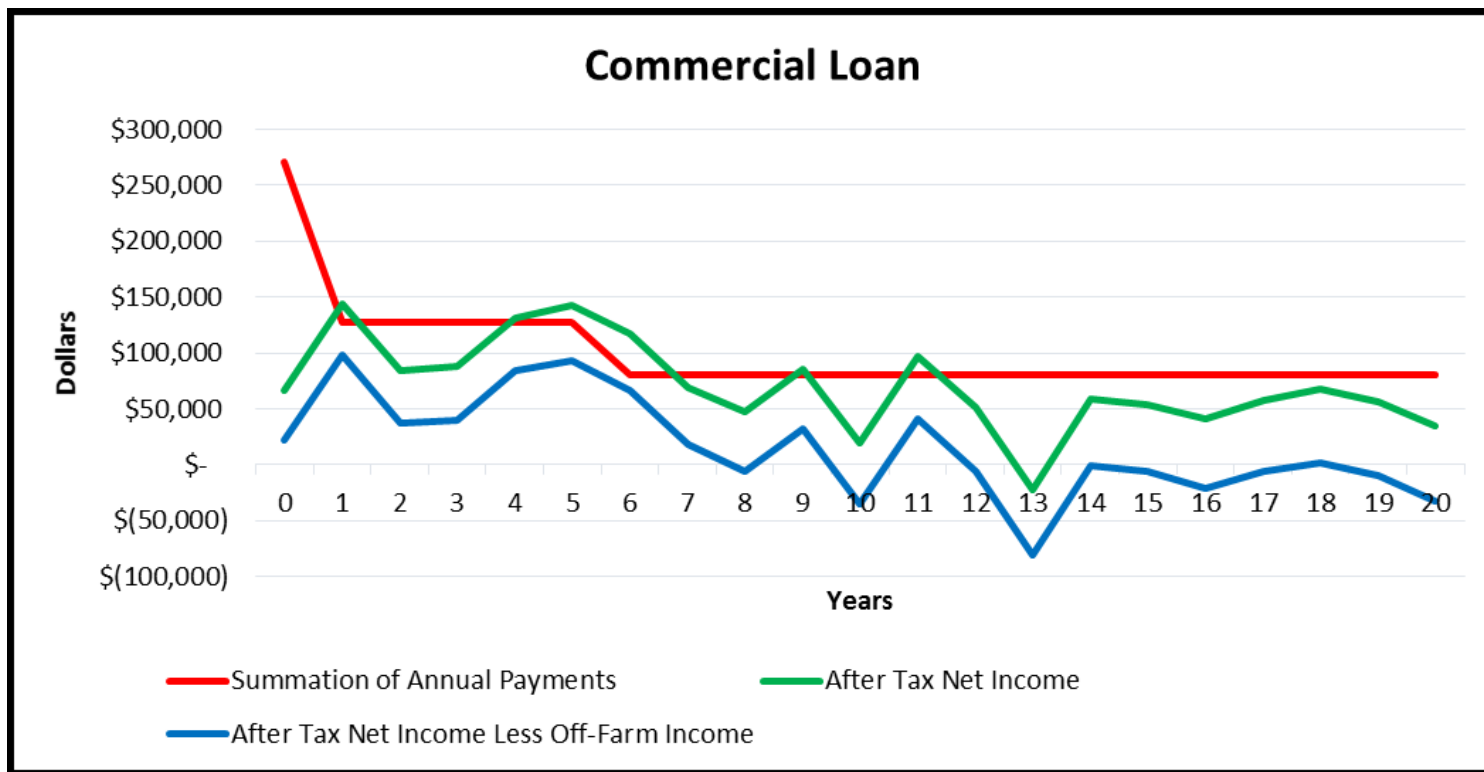
“Split it down the middle”

- **Undivided $\frac{1}{2}$ interests to Farm Kid and City Kid**
- **Assume City Kid demands buyout**
 - A. Commercial loan**
 - B. “Seller financing” - AFR interest rate, 20 year note**

Scenario 1A: Commercial Loan Results

- **Equipment: 5 yrs. at 5.75%**
- **Real estate: 20 yrs. at 6.5%**
- **Down payment: \$270,972**
- **Annual payments: \$127,375 for 5 years then \$80,219**

Scenario 1A: Commercial Loan Results



Deficient

-\$61,031 for 5 years

-\$13,875 for 15 years

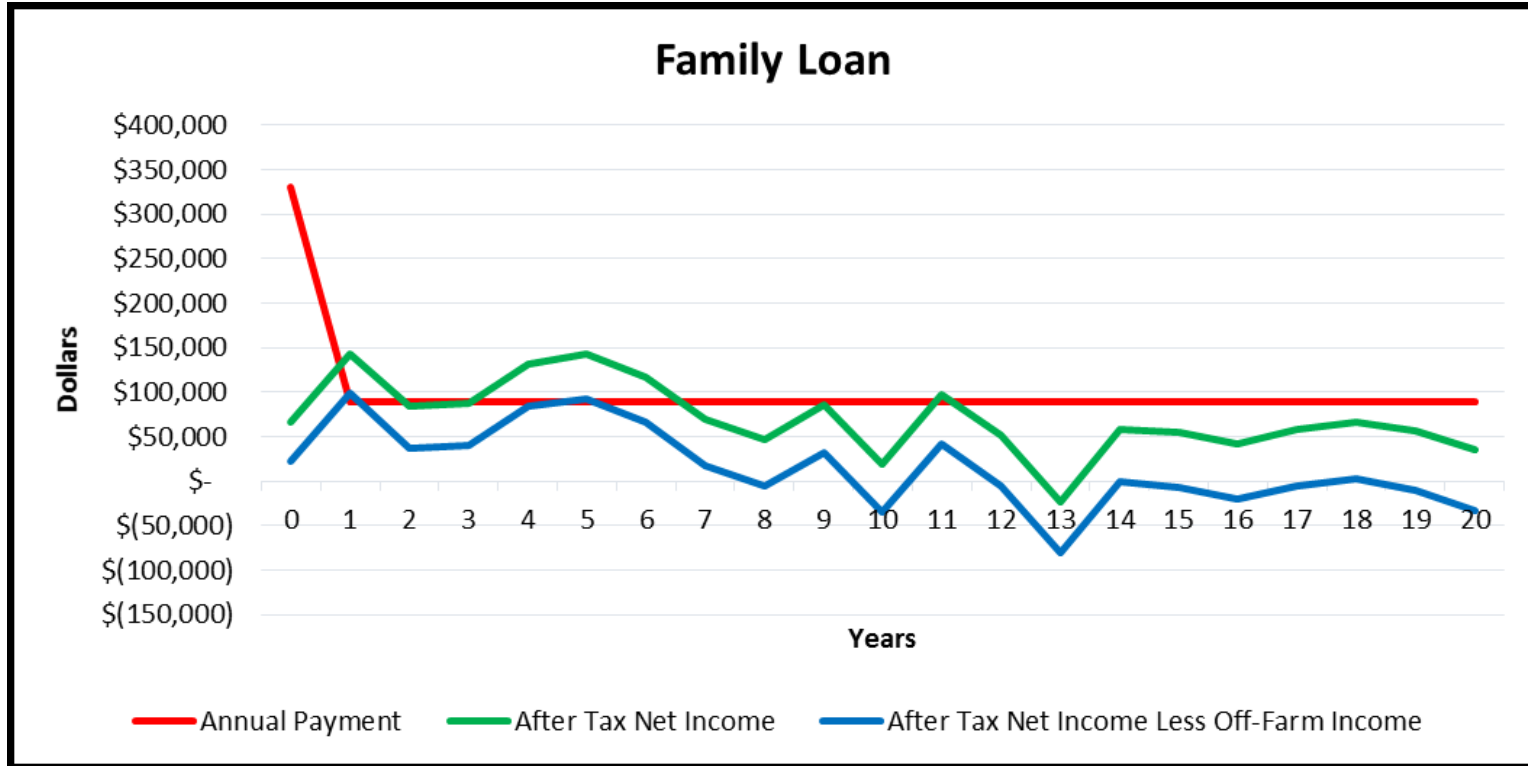
With Off-Farm Income	Without Off-Farm Income
6	0
30%	0%



Scenario 1B: Family Loan Results

- **One loan**
- **20 years**
- **AFR Rate: 3.05%**
- **Down payment: \$270,972**
- **Constant loan payment: \$89,135**

Scenario 1B: Family Loan Results



With Off-Farm Income	Without Off-Farm Income
5	2
25%	10%

Deficient -\$22,791

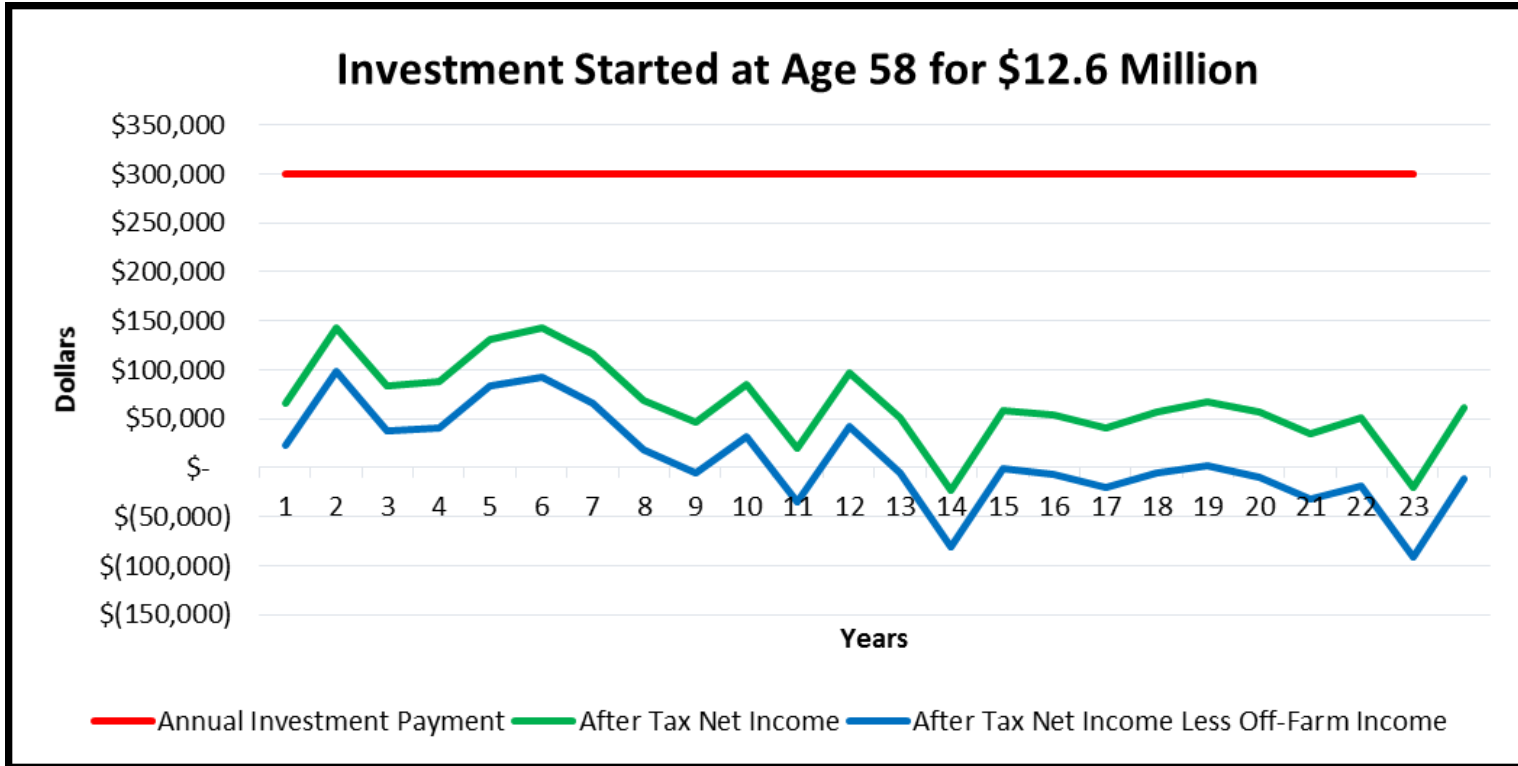
Scenario 2: “Grow to equal”

- **All farm assets to Farm Kid**
- **Mom and Dad create financial asset to equal projected farm net worth**
 - A. Sinking investment fund**
 - B. Permanent coverage, second-to-die life insurance policy**

Scenario 2A: Investment Fund Results

- **Present asset value: \$3,300,000**
- **Projected value: \$12,605,174**
- **Investment growth rate: 4.55%**
- **23 years**
- **Annual payment: \$300,403**

Scenario 2A: Investment Fund Results



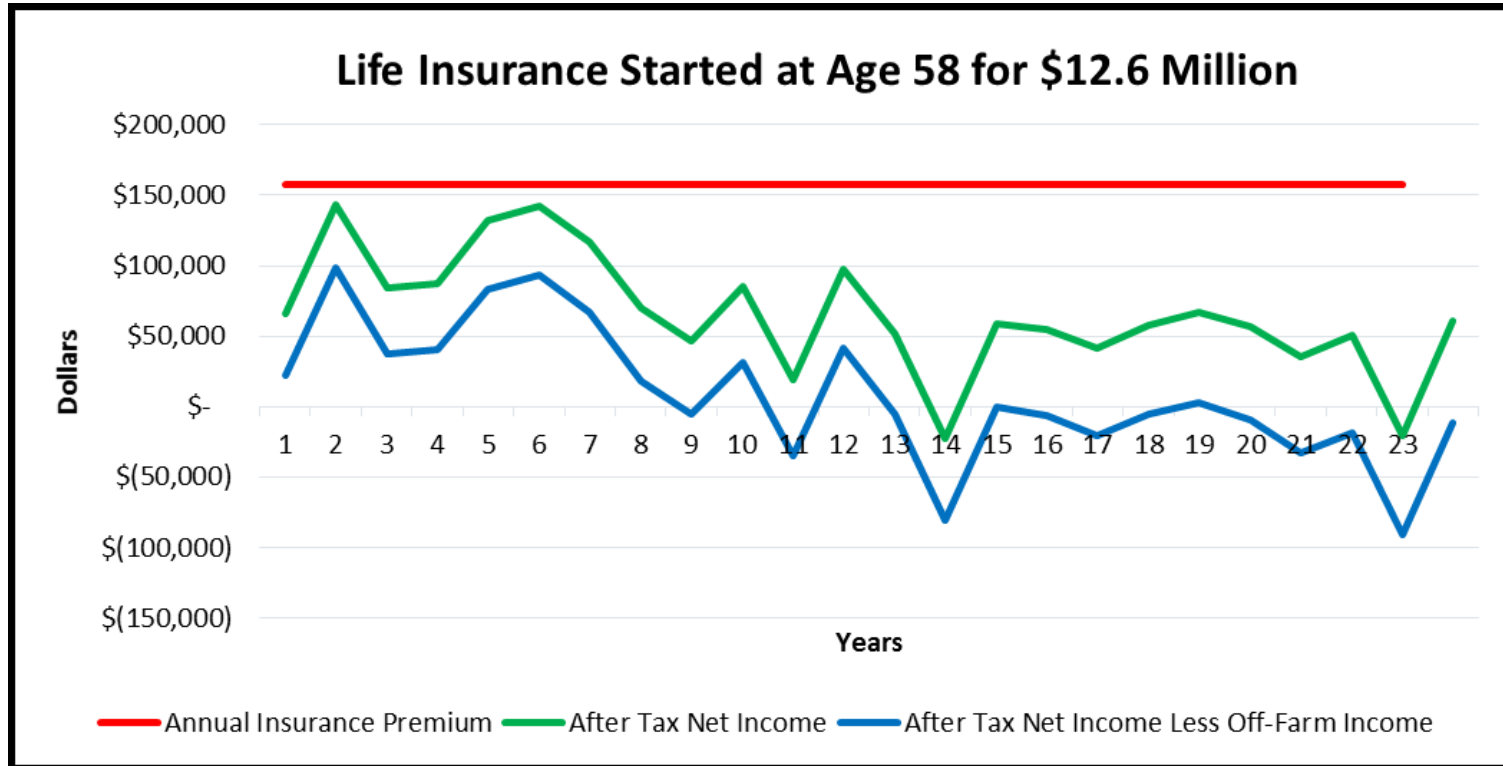
With Off-Farm Income	Without Off-Farm Income
0	0
0%	0%

Deficient -\$234,059

Scenario 2B: Life Insurance Results

- **Present asset value: \$3,300,000**
- **Projected value: \$12,605,174**
- **23 years**
- **Annual payment: \$157,673**

Scenario 2B: Life Insurance Results



With Off-Farm Income	Without Off-Farm Income
0	0
0%	0%

Deficient -\$91,329

Scenario 3:

“Estate balancing”

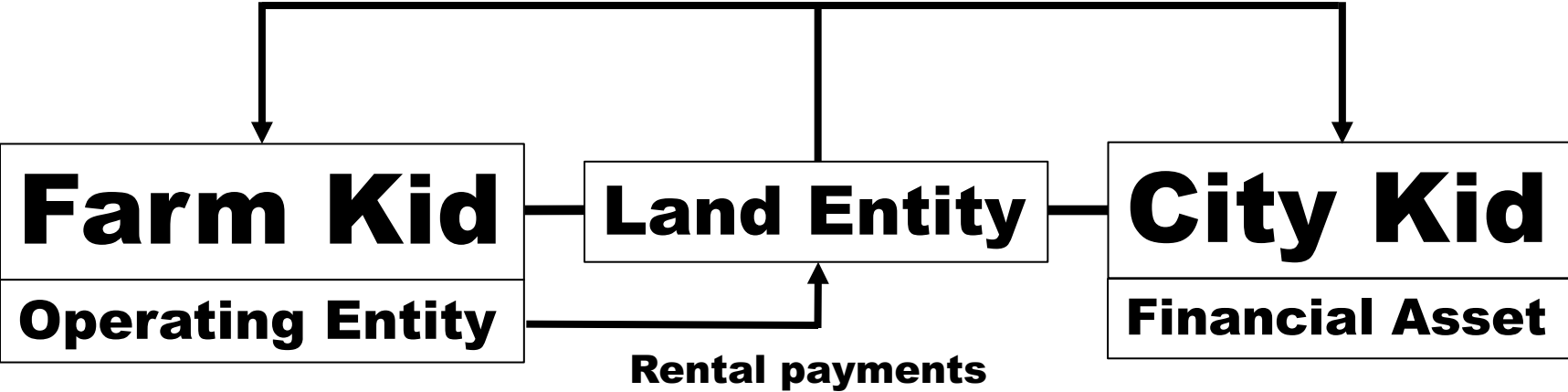
- **Farm operating assets and farm land placed in separate entities, respectively**
- **Farm Kid receives operating entity**
- **Farm Kid and City kid receive equal interests in land entity**
- **Farm entity pays FMV rents to land entity; entity distributes income to Farm Kid & City Kid**

Scenario 3:

“Estate balancing”

- **Mom and Dad create financial asset equal to projected value of operating entity; give to City Kid**
 - A. Sinking investment fund**
 - B. Permanent coverage, second-to-die life insurance policy**

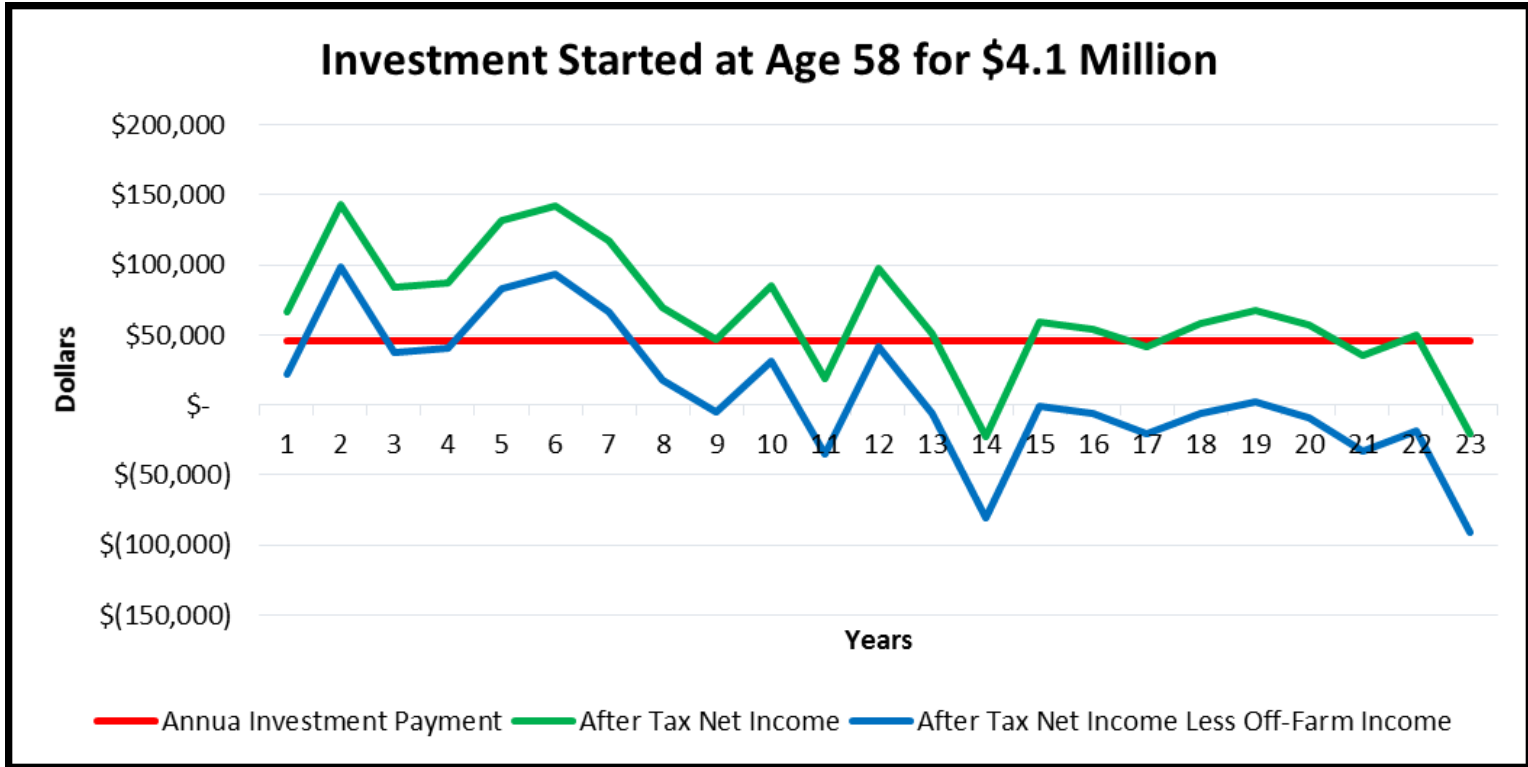
Income distributions



Scenario 3A: Investment Fund Results

- **Present asset value: \$500,000**
- **Projected value: \$1,909,875**
- **Investment growth rate: 4.55%**
- **23 years**
- **Annual payment: \$45,516**

Scenario 3A: Investment Fund Results



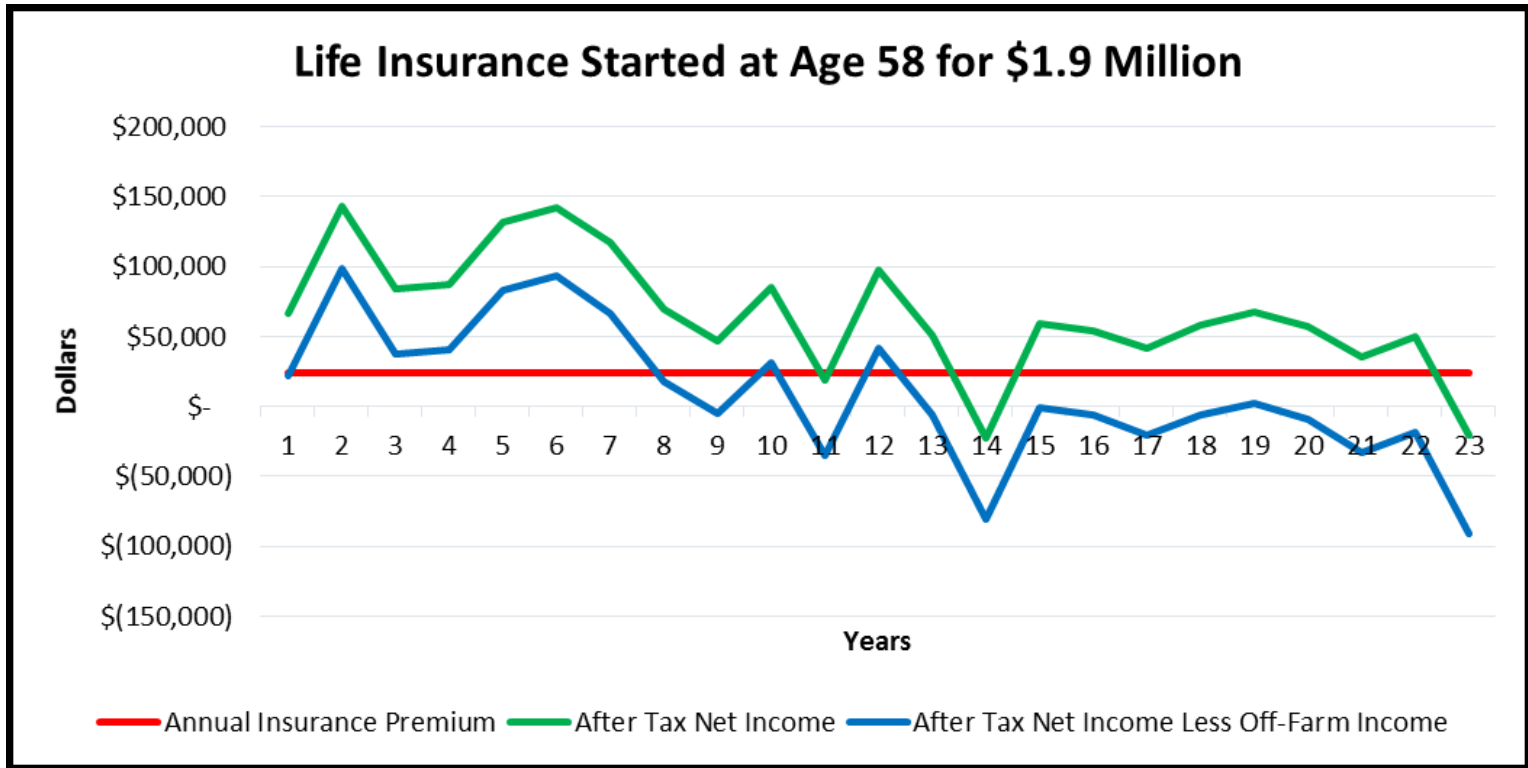
With Off-Farm Income	Without Off-Farm Income
18	4
78%	17%

Surplus \$20,828

Scenario 3B: Life Insurance Results

- **Present asset value: \$500,000**
- **Projected value: \$1,909,875**
- **23 years**
- **Annual payment: \$24,139**

Scenario 3B: Life Insurance Results



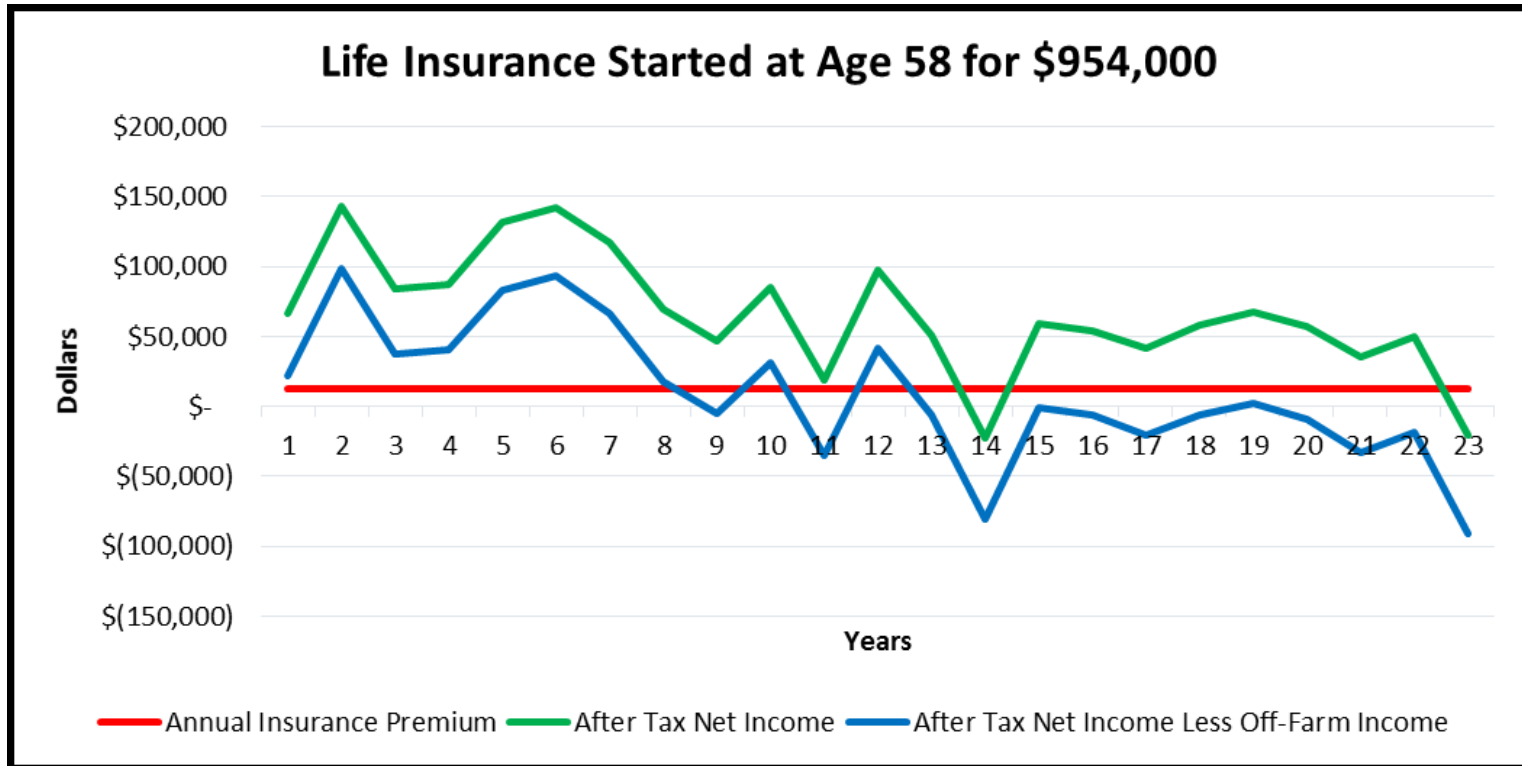
With Off-Farm Income	Without Off-Farm Income
20	8
87%	35%

Surplus \$42,205

Scenario 4: City Kid discount

- **Similar to Scenario 3**
 - **Both kids get $\frac{1}{2}$ interest in land entity**
 - **City Kid only receives $\frac{1}{2}$ value of operating entity**
- **Present asset value: \$250,000**
- **Projected value: \$954,937**
- **23 years**
- **Annual payment: \$12,212**

Scenario 4: City Kid discount



With Off-Farm Income	Without Off-Farm Income
21	9
91%	39%

Surplus \$54,132



**SWEAT
EQUITY
PROGRAM**

Entitlement

vs.

Oppportunity

EQUAL

≠

EQUITABLE

Sale forms

Outright sale

Sale with accompanying loan

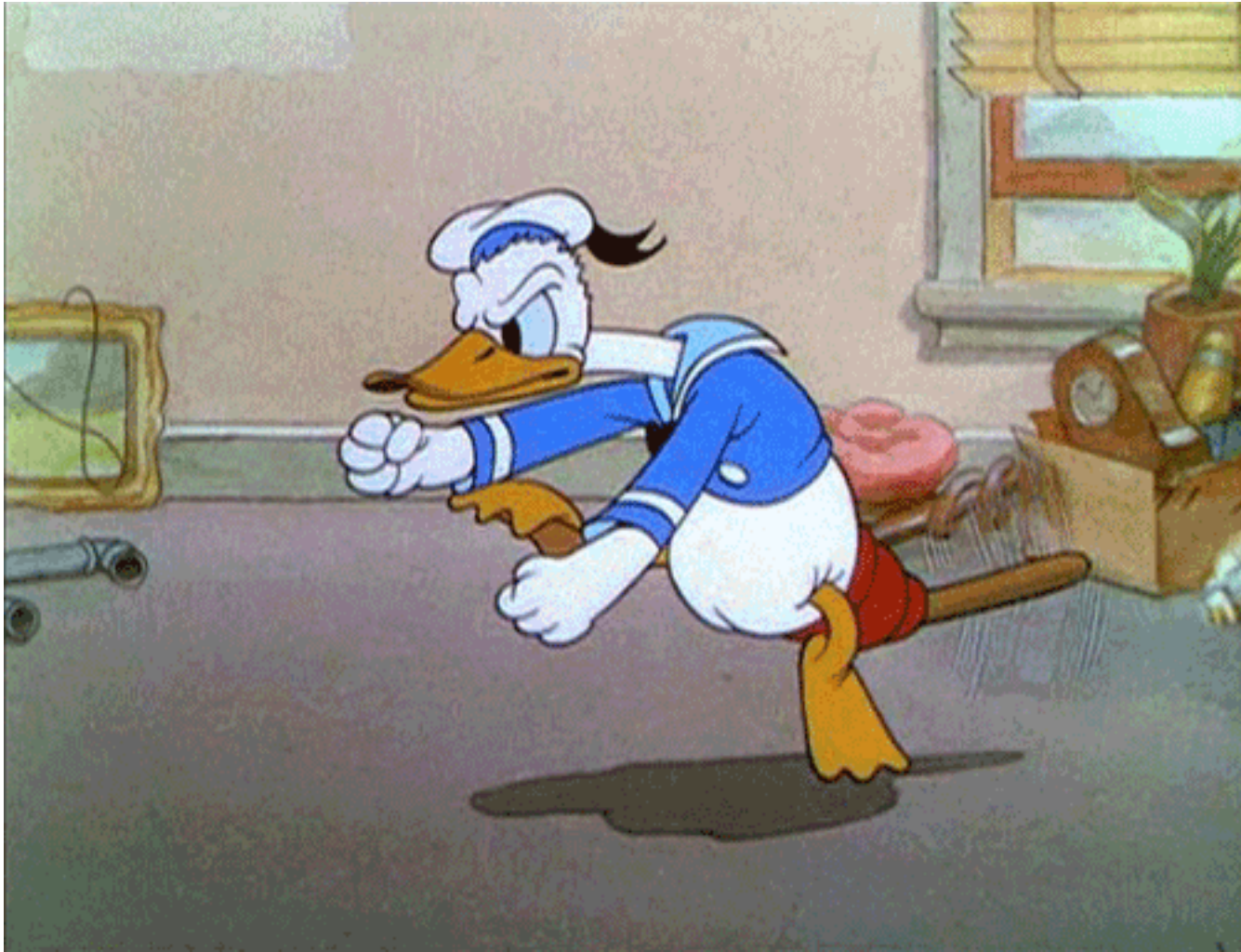
Installment sale

Financing (or “capital”) “lease”

Lease forms

Financing (or “capital”) “lease”

Operating lease



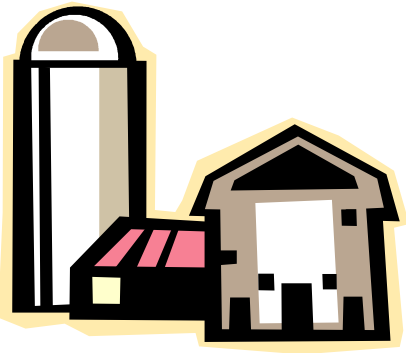


Year 1

Year 2

Year 3

Founder



Ownership

Control

Participation

On-farm heir

Off-farm heir

Separate Entity

**Unrelated
Successor**

Founder



Control

On-farm heir

Participation

Off-farm heir

Ownership

Separate Entity

**Unrelated
Successor**

Buy/sell agreements



Death

Debt

Disability

Deceit

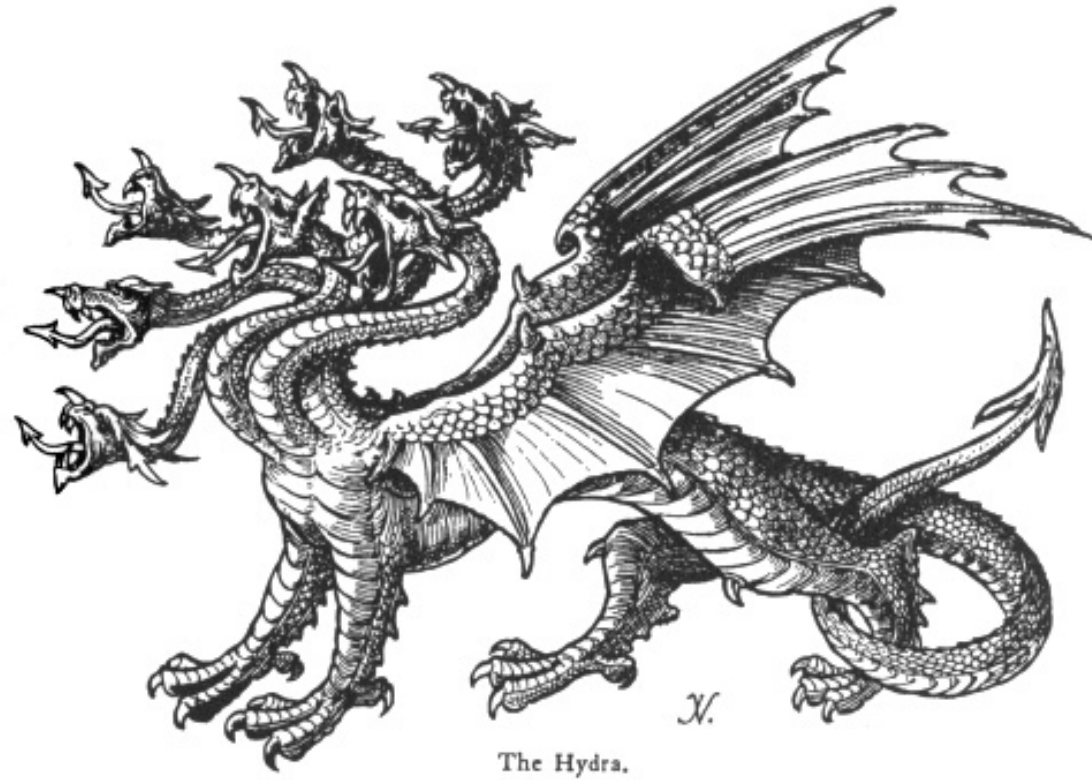
Divorce

Don't wanna

To pre-nup or not to pre-nup



Management & decision-making





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Fundamentals

Flexibility is crucial

Someone will go insane

In not choosing, you have chosen

Controversial “hot take” by Ferrell

***Rigor mortis* makes you
an inflexible farm manager**

The new estate tax landscape

\$11.2 million personal exemption

\$22.4 million combined exemption

Spousal portability retained

Stepped-up basis retained

\$15,000 / \$30,000 annual gift limit

Sunsets and ABCs



Other critical estate planning documents

- Guardian nomination for minor children
- Beneficiary designations
- Durable powers of attorney
 - Business
 - Healthcare
- Advanced directive for health care
- Will
- Trust (?)
- Life insurance (?)

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Don't go it alone, and don't stop



Don't go it alone



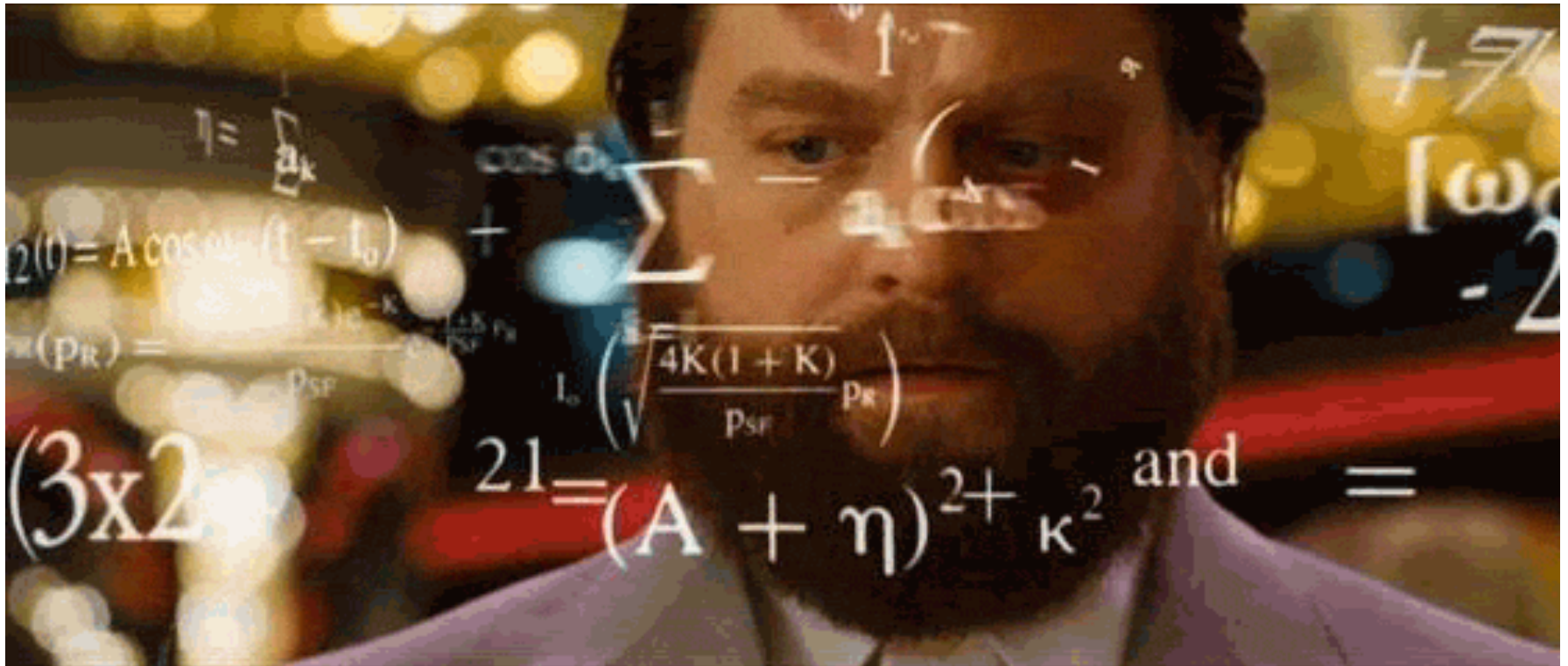
The transition team: The Accountant



The transition team: The Attorney



The transition team: The Production Consultant



The transition team: The Investment Advisor



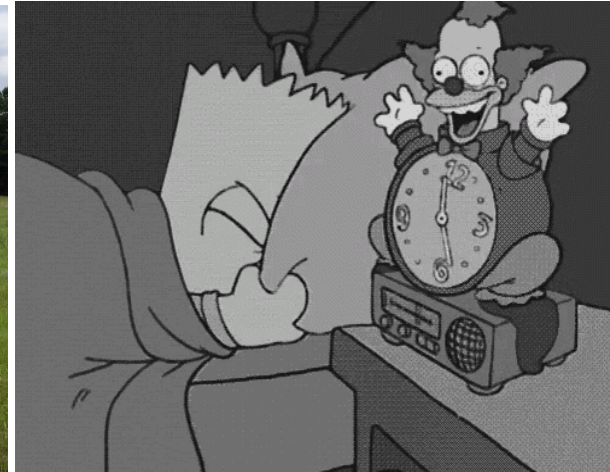
The transition team: The HR Advisor



The transition team: The Referee



Step 5: Deploy your plans / evaluate / revise



The “hit by a _____” plan









For more information

<http://agecon.okstate.edu/farmtransitions>





THANKS!

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