WE WOULDN'T BE HAVING THIS TALK IF …

TRANSITIONS AND STRATEGIES | BY TIM SCHAEFER

Deal with tough, emotional issues of transition planning before it's too late

"WE WOULDN'T BE having this conversation if corn was $7, and we were making big money."

That comment was from Rob, a successful farmer from Illinois, as we talked about a farm transition that wasn't going well.

A week earlier another farmer, Grant, confided that "we wouldn't be having this conversation if my boys didn't want to come back to the farm." He was referring to working with his brother and struggling with the constant conflict.

When times are tough and everyone is under stress, all the imperfections bubble to the surface. The imperfections were there all along, but so often we don't want to deal with tough issues unless our backs are against the wall.

This is especially true of transition planning.

What's the answer? For starters, it's best to deal with the emotions, before emotions become the issue.

That's where Grant was. Emotions were so high that a normal give-and-take of a family farm was impossible. Emotions had become the main issue, and battle lines were clearly drawn.

Grant and his brother Gary admitted that our plan to help them work out their differences was solid, but they both admitted they probably would just split the farm up instead. Working on the root causes of problems would be seen as giving in, and neither side wanted to budge an inch to the other.

They had waited too long.

EMOTIONAL POINTS

So what issues are often ignored? One emotional area is money. Who has it? Who should have it? How does it flow? Here are some common problem areas:

Tying compensation to ownership rather than skills, experience and hours worked. Sole proprietors often treat their farm business like an extension of themselves and don't pay themselves a wage for tax reasons. This works well until another generation comes on board. The new generation is expected to live on below-market wages while doing the lion's share of the work as Dad slows down. Even if it is tolerated by the new generation, their spouses often have serious issues with not getting paid market wages.

Not allowing the next generation to build equity before someone dies. This transition issue is a close cousin to the issue above. The next generation can't build equity if the senior generation only allows it at death through the estate settlements. When someone has his or her own money on the line, it focuses attention on results. Often the new generation buckles down when it's their money on the line, their banknote to pay off and their equipment repair bill.

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No planning for retirement income by the senior generation. Farmers often don't have major outside investments (although it's a good idea) or significant retirement accounts. When they were working full time on the farm, they simply pulled an owner draw for living expenses.

Many farmers don't plan their retirement income, and since they have not paid themselves much in wages, the Social Security check isn't very much either. Often unspoken and unplanned money disbursements from the farm frustrate the next generation doing the work and trying to reinvest profits for growth.

Both Grant and Rob put off dealing with the hard, thorny issues. Grant and his brother were so far gone they didn't have the energy or willpower to try. But Rob saw the issues for what they are and is currently working through a strategy to get unstuck.

Unlike Grant, Rob can objectively work on his transition plan because the emotions are not at the redline. And that's a good thing. **FF**

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