

# Succession Planning: An Introduction



Keith Dickinson, CFP® Business Consultant



# The Estate Plan vs The Succession Plan

- Two different plans, but are inter-related

## Estate Plan:

The plan for the disposition of an estate. Can include:

- Wills
- Trusts
- Gifts prior to death
- Guardianship for minor children

## Farm Succession Plan:

The plan to move the management and / or ownership of a farm business from one owner to another

- Parent – Child
- Grandparent – Grandchild
- Other Family or Non-family transfer

- The Succession Plan will usually include an Estate Plan(s)
- The Estate Plan can BE a Succession Plan... but perhaps not a very good one!



# Succession Planning: Key Steps

- Communicate with family and business partners
- Set Goals
- Identify and train the “heir apparent”
- Analyze the business for ability to bring in the next owner / manager
- Form new Business Entity, if applicable to the situation
- Develop Estate Plan(s)
- Retirement Planning
- Contingency Plans (What if...)
- Communicate some more



# The Succession and Estate Plans are NEVER Done

- Situations change....
  - Tax laws
  - Births
  - Deaths
  - Life Happens!
- Your plan must be a living part of your business plan, that is constantly evolving



# Successor Rules

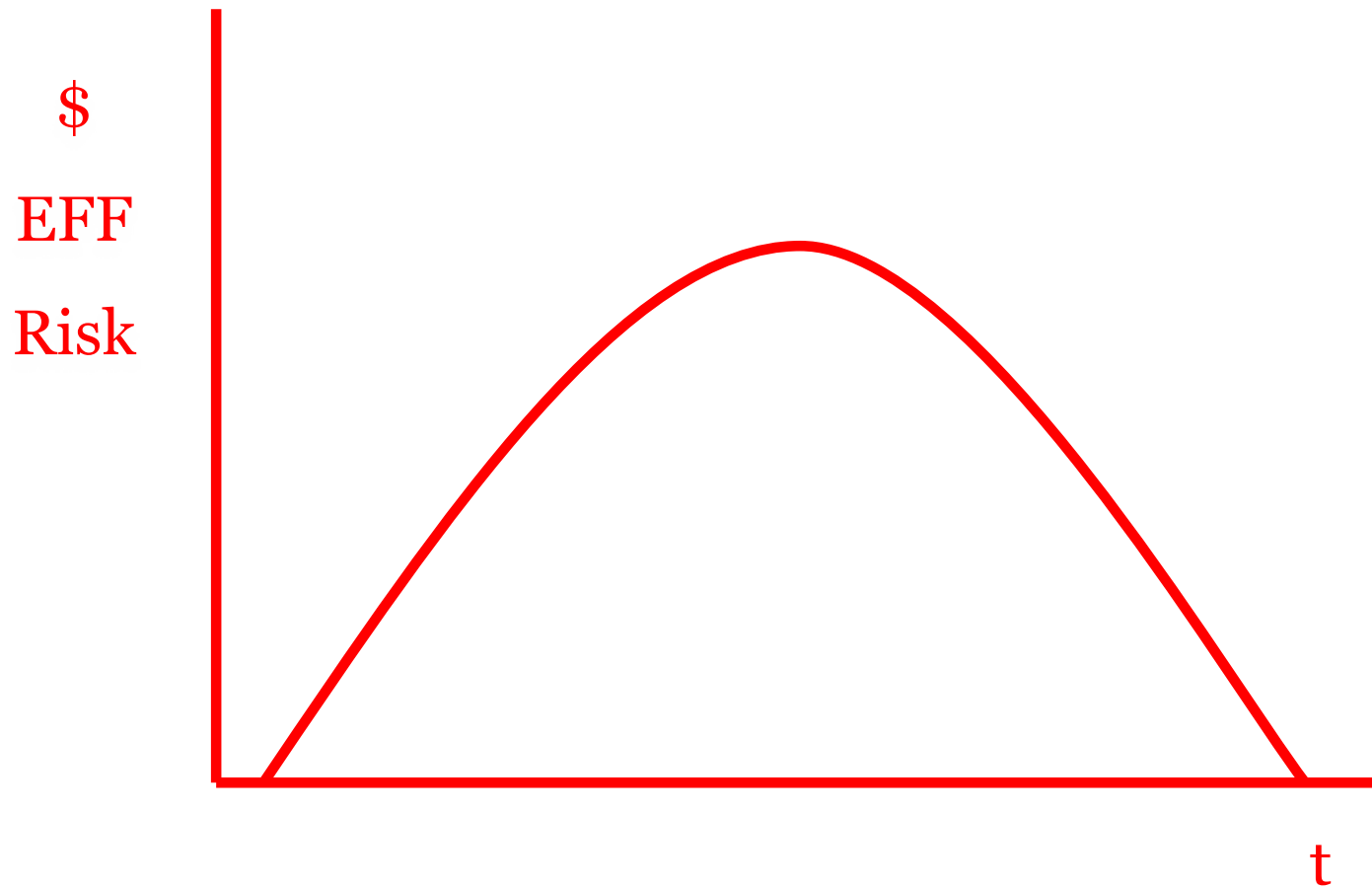
- Age – 25 +
- Experience: Worked in another business for at least one year
- Skills: Appropriate level for business
- Maturity / Responsibility: Judgement call



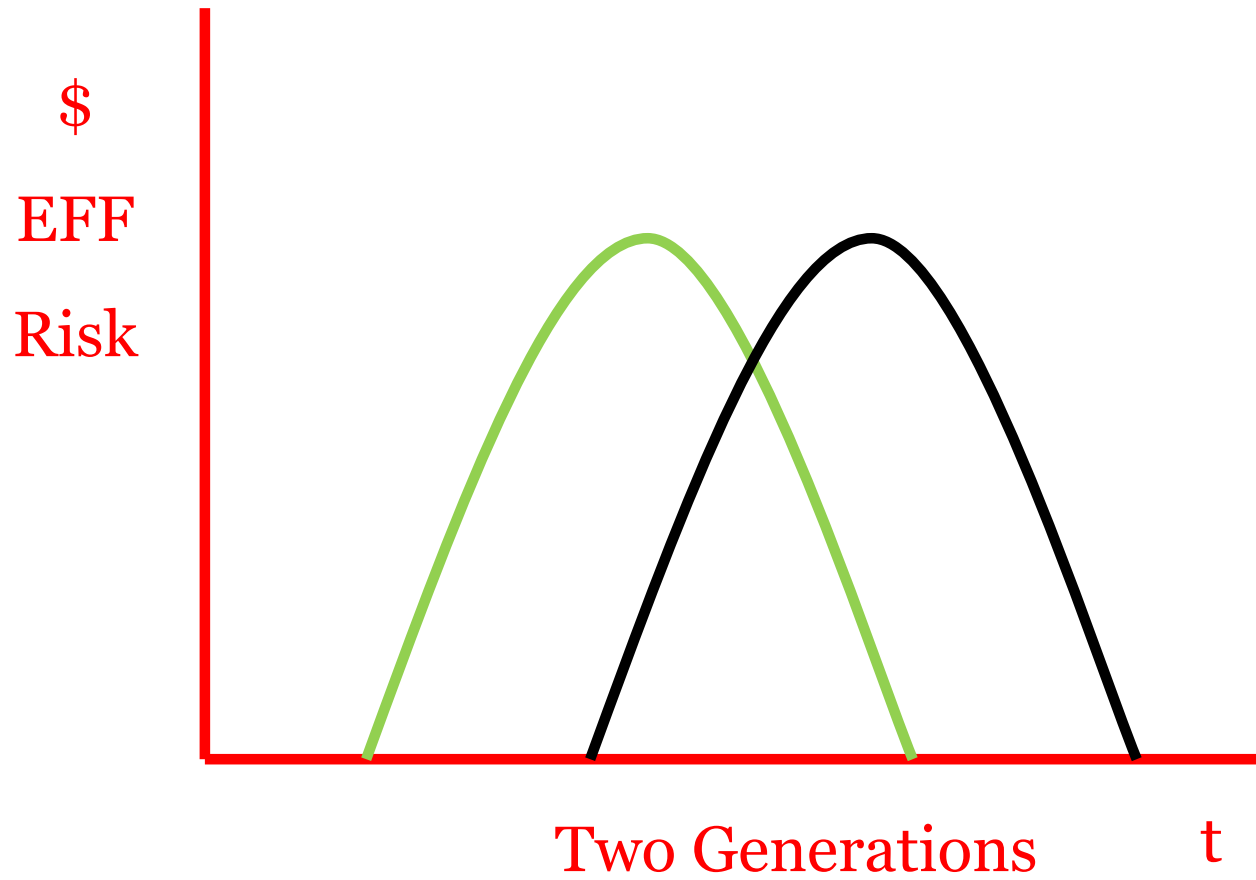
# Timing the Succession

- The Succession should not be over night
- Transfer of management responsibilities and ownership should be gradual
- Allow the younger generation to ‘grow’ into the new role
- Maximize the Family Farm Life Cycle

# THE FAMILY FARM CYCLE

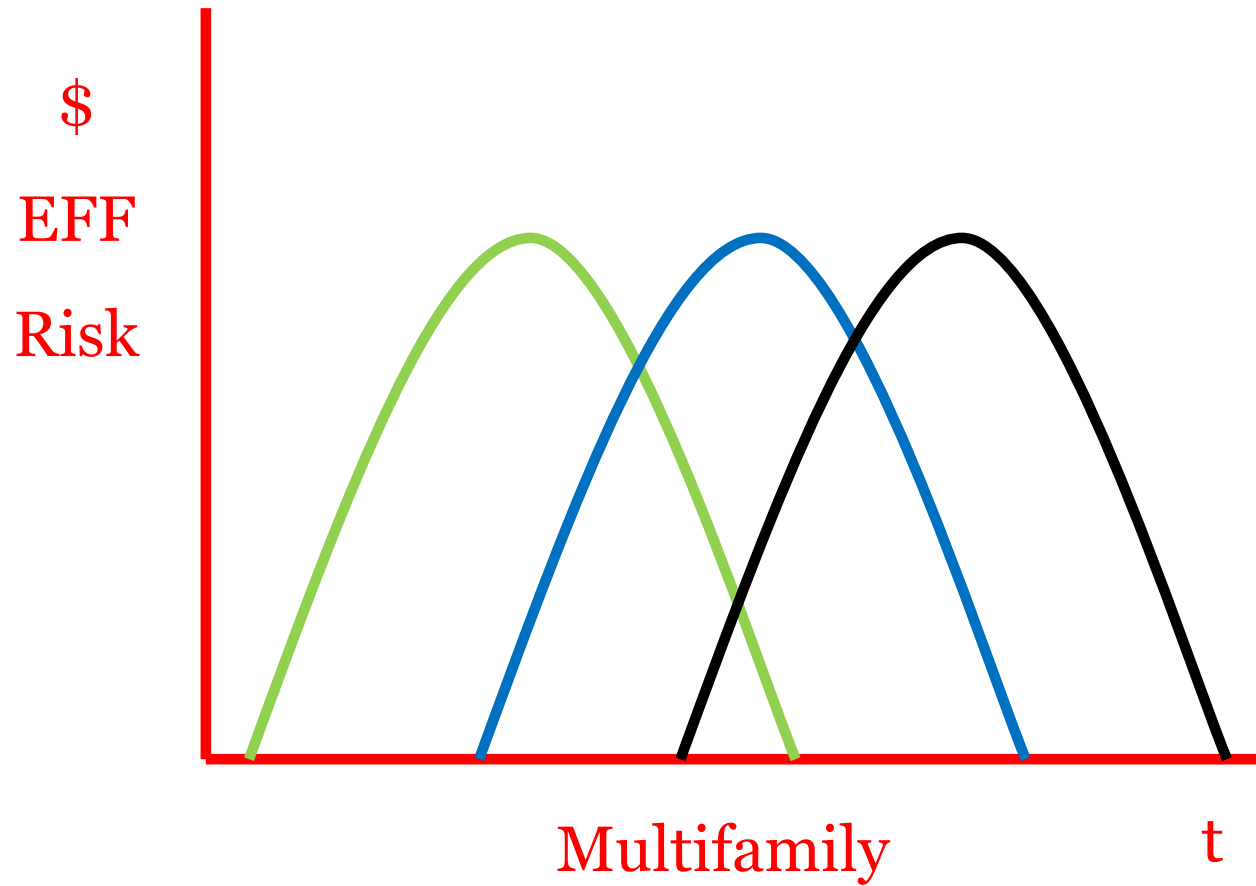


# THE FAMILY FARM CYCLE





# THE FAMILY FARM CYCLE





# Retirement Planning

- In multi-generational farms, it is important to plan for the **FINANCIAL** retirement from the farm
  - *This does not mean that you have to stop working on the farm!*
- What will be your source of income when you are no longer drawing income from the farm?



# Sources of Retirement Income

- Net farm income
  - Continued draw from farm
- Lease of farm assets
- Sale of farm assets (after-tax)
- Off-farm salary/wages
- Pension, Social Security benefits
- Personal savings & investments
- IRAs, 401(k), taxable inv., real estate, etc.

# Care in your Later Years

- Health care costs increase with age
- Life expectancy after 65 is 18.4 years
- About 44% of those 65+ are expected to enter a nursing home at least once in their lifetime
- Of those who enter, 53% will stay for one year or more



# Estate Planning





# What Should an Estate Plan Address?

- Transfer of property
  - Before and After Death
- Post-death expenses of estate and family
  - Funeral
  - Debts
  - Family Income needs
- Taxes
  - Estate, Gift and Inheritance
- Other Issues
  - Powers of Attorney
  - Advanced Medical Directives

# Estate Planning Tools

- Wills
- Trusts
- Life Insurance
- LTC Insurance
- Power Of Attorney
- Advanced Medical Directives





# Succession Strategies

- What fits YOUR situation?
- The past is history
- You are not the neighbors
- Hire Professionals, but make sure that they work for you
- It is your plan, make it fit you, not the other way around





# Time is your Friend

- When should I start My Succession Plan?
  - NOW
- Advantages of Starting Early:
  - More Transfer Options
  - Saving for Financial Retirement
  - Build Experience of Succeeding Generation
  - Correction of Problem Areas
  - Reaction Time to Unexpected Events



# Concluding Thoughts

- Make the Plan Your Plan
- Start Early
- Be Diligent
- Stay Focused
- Enjoy the Process