

# Farm and Ranch Survival Kit

Working Together to Create a  
Hopeful Future For Family Farms



Issue 4

As a farmer, rancher or small woodlot owner, how do you pass on your business and land resources to your heirs without creating a war zone? This installment of the Farm and Ranch Survival Kit will provide you with the answer to that question as well as many other challenges that arise from passing the farming baton to the next generation.

The authors in this issue stress open communication between generations as the most important element of a successful estate plan. When each generation knows it has a voice in the outcome both will be more likely to pull together to form a win-win arrangement. When communication breaks down, the likelihood of a successful intergeneration transfer is compromised.

To learn the skills it takes to make your estate plan successful, plan to attend our upcoming workshop *“Passing the Baton: The Art of Handing Over the Farm to the Next Generation.”* You will find the details on page six of this newsletter.

Cheryl Williams-Cosner  
Project Coordinator  
cosner@bmi.net

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## What to Think About Before Joining Your Family’s Business

Dear Advisor,

**I’ve heard some horror stories about promises made to family members who joined the family business – and then not kept. Any advice before I jump in?**

Joining the family’s business is never a decision that should be made lightly. The rewards can be great – a clear shot at the top spot, financial security, a chance to work with people you love while building on your family’s legacy and more. But the risks are great too---if things don’t work out, both the economic and emotional costs can be huge. Blurred lines between family and business roles and goals create complexities than can result in family-rending conflicts and business disasters.

Before joining the family business, members of the younger generation should ask themselves a series of questions. Remember, you are taking a job---and just because it’s in your family’s business, it doesn’t assure that you are making a good career move. Here are some questions to think through:

- **Why am I doing this?** Your answer should focus primarily on business-related reasons. If you are thinking “my family needs me” or “working in the family business will be easier than working elsewhere,” we recommend thinking again. You may be walking into an unintentional but painful trap.
- **Does it offer the career I want?** Does it fulfill my personal goals? Do I like what the business does? Will I find the work meaningful and challenging? Before you join the family business you need to think clearly about yourself, your goals and what you find fulfilling. If your family business offers a way to apply your passions to your career, go for it. If not, consider another calling.
- **Can I make a real contribution?** Can I bring meaningful skills, talent, knowledge and experience to the business? Businesses thrive because of value added by each employee and the company as a whole. If you bring real value to the table and the capability to build more, bring it on. Other rationales -- blood, family expectations, ease of getting the job, a sense of entitlement – are not sustainable and lead to trouble

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- **Can I work with my family?** Do we communicate openly, honestly and effectively? Can we resolve conflicts that inevitably will arise? Do I understand that being a “good son or daughter” is different from being an effective manager? Some believe that strained family relationships can be improved by family members working together. More often, the opposite results. If you lack good relations and solid communication, joining the family business can put you in real jeopardy.
- **If things don’t work out, am I confident that I have other opportunities and the freedom to seek my fortune elsewhere?** Dependency is a horrible trap and an invitation for abuse. You should be of independent mind – psychologically and economically prepared to leave if frustrations become too great.
- **Do you understand what you are getting into?** A potential successor should enter the family business in response to a specific, formal offer to fill a job that exists. If responsibilities are cloudy or a position is being created for you, steer clear. Conditions and criteria for advancement should be explained, as should the methods for determining compensation and the opportunity to become an owner.

Don’t join the family business because of promises or expectations. Plans go awry under the best of circumstances. Even if you inherit a business, in reality you must earn it through work, commitment and contribution. Following in the footsteps of a parent is a tricky and difficult challenge. Know what you are getting into and be thoughtful about the seriousness of the commitment you are making. If you are satisfied you’ve done your homework and you still want to proceed, you have a shot at a career that combines the best---or the worst---of all worlds.

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## Use a Checklist When Planning Your Estate

According to Wayne A Hayenga, an attorney and veteran Texas A&M Extension economist, good estate and financial planning can save you a bundle. A good estate plan can save farm and ranch families thousands of dollars in estate taxes, income taxes and administrative fees.

“Many people only worry about estate planning if they hear of a friend’s ‘problem’ in settling an estate or paying estate taxes,” says Hayenga notes. Many farmers wait too long to begin their financial and estate plans.

Giving much thought--with attention to detail--- is essential in estate planning. Here’s Hayenga’s checklist of some estate planning tools:

- ✓ Wills
- ✓ Pourover wills
- ✓ Standby trusts
- ✓ Account title review/change
- ✓ Deeds with retained life estate
- ✓ Lifetime planning
- ✓ Declarations of guardian
- ✓ Powers of attorney/escrow letter
- ✓ Management trust
- ✓ Directive to physician
- ✓ Health-care power of attorney
- ✓ Planning for children
- ✓ Guardian
- ✓ Uniform transfers to minors
- ✓ Minor’s trust

- ✓ Life Insurance
- ✓ Tax planning beneficiary designation
- ✓ Ownership review
- ✓ Policy review
- ✓ Charitable gifts
- ✓ Foundations
- ✓ Gifts
- ✓ Limited partnerships
- ✓ Split interests
- ✓ Parents’ wills
- ✓ Premarital agreements
- ✓ Installment sales

These tools may or may not fit your estate goals. This list can be used as a springboard for conversations with your spouse, business partners, heirs and financial advisors in order to draft your estate plan.

*Adapted from information presented during a seminar series by Dr. Wayne A. Hayenga, Texas Cooperative Extension economist and attorney at Texas A & M University.*

