

Agriculture Solutions

Avoiding Conflict in the Family Business

Managing a successful farm or ranch takes time, strategy and often a little luck. As a farmer or rancher, you don't just plan for next week or next month. You must plan years into the future despite many variables.

You will need to apply the same kind of careful planning to your financial future—to devise a strategy for the day when the farm or ranch is passed on to the next generation. Without planning, you increase your chances of becoming one of the following statistics¹:

70% of first-generation operations do not successfully transition to the next generation.

90% of second-generation operations do not make it to the third generation.

96% of third-generation operations do not survive to a fourth generation.

Transition planning allows you to transfer your assets to your loved ones according to your wishes and also:

- ▶ Avoid conflict.
- ▶ Provide estate liquidity.
- ▶ Help cover debt.
- ▶ Help supplement retirement.
- ▶ Realize philanthropic goals.

Dividing the *indivisible*

Inevitably, death presents multiple opportunities for conflict. This can be especially disruptive when heirs' expectations clash with the realities of the estate plan. Disputes may also arise if directives in your will take loved ones by surprise, if your choices don't make sense to your family, or if incomplete planning produces unintended consequences.

You've spent a lifetime building your business. But if you're like most farmers and ranchers, your business is comprised largely of non-liquid assets that cannot be easily divided. This legacy—the farm or ranch—is a particularly challenging estate asset when it comes time to transfer the operation to heirs.

Passing along the operation *and everything else you own*

The farm or ranch is almost certainly your biggest asset in your estate. So, let's imagine for a moment that you are a farmer or rancher with four children—only one of whom is working the land. What's the best way to divide the operation among children who all have very different wants and needs?

1 Do you give each child an equal share of the operation?

This may sound fair on the surface, but it can lead to numerous conflicts. To keep the agriculture operation working efficiently, your child who is working the land will need to keep the operation whole. But he or she may not have the money to buy out their off-farm siblings. This situation could become very complicated both financially and emotionally.

2 Do you give each child an equal share of the estate?

Your operation is likely worth much, much more than any of the estate's other assets. So, trying to balance the value of inheritances among family members equally by bequeathing the operation to one and the liquid assets to the others would likely not provide equality. It may also result in bitterness and resentment by the off-farm family members.

Life insurance – an ‘equalizing’ solution

Life insurance can provide a straightforward solution to this difficult problem:

- ▶ You have the freedom to bequeath your farm or ranch to family members who have chosen to remain active in the agriculture operation.
- ▶ You can purchase a life insurance policy on your life and name the off-farm family members as beneficiaries of the policy. *(Or, if estate taxation is a concern, let your inactive children purchase a policy, or policies, while you gift the premiums using annual gift tax exclusions.)*
- ▶ The life insurance proceeds will provide an inheritance to the off-farm family members who have decided to pursue other careers outside of the agriculture operation.

KEEP LINES OF COMMUNICATION OPEN

One of the keys to making any planning arrangement work is discussing your plans with your children in advance. Explain the reasoning behind the choices you’ve made, and explain that you’ve taken enormous care to provide for each of them in an equitable way.

The inheritances may not be identical, but they offer the opportunity to reflect your intent to be fair. This keeps family members on the farm and peace within the family, which is the ultimate goal.

¹ *Ag Web*, “A Successful Transition to the Next Generation,” Kevin Spafford, Farm Journal Columnist, June 30, 2012



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