

Transition Planning in Kansas: Learning from Experience

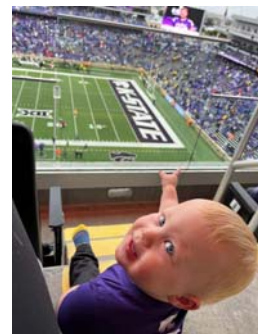
Risk and Profit Seminar Series

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My Family's Year in Manhattan



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Objectives

- Share findings of the last year of helping families through transition planning
- Discuss tools and strategies used
- Motivate families to try and take the next steps in their transition process

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One-on-One Consultations

Provide **one-on-one technical services** to facilitate transition planning by resolving family conflicts, evaluating different succession options, and facilitating meetings with professionals

- Families utilized this service: **60**
- Follow-up Families: **30**

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Some Big Issues Facing Farm Families

1. Lack of any type of documentation
2. *Fairness* between on-farm to off-farm
3. Affordability of two generations on farm
4. Generational differences on farm
5. Long-term care planning
6. Potential tax exposure



Documentation

- No basic wills or trusts (or haven't been updated for MANY MANY years)
- No operating agreements/partnership agreements
- No job descriptions or standard operating procedures



What could go wrong?

- Intestate
- Probate
- Confusion
- Lack of knowledge on how things were handled
- Loss of business



Principle

- No one will remember what you said—they only remember what is written.



Tools Used

- **Family Meetings and Communication**
- Standard operating procedures (especially book-keeping side)
- Job descriptions and information on how decisions have been made
- Written and signed employment contracts
- Updated operating, lease, and business agreements with deadlines for future updates
- Basic estate documents

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Fairness

- Undivided Interest
- Understanding what the farm child needs, but having a hard time being *fair*
- Setting the market value of the farm assets as the amount the farm kid is “getting” in the estate

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What could go wrong?

- Family fights
- Farming legacies end
- Sell the farm



Study by Oklahoma State University

- Shannon Ferrell, Ag Law Professor and Graduate Students
- Southcentral KFMA data used



The Strategies

1. Farm Kid & City Kid get undivided interest in all farm assets (City Kid buyout).

	Top Third		Middle Third		Low Third	
Breeding Livestock	\$ 56,602		\$ 28,288		\$ 21,442	
Machinery & Equipment	\$ 1,012,499		\$ 499,177		\$ 152,462	
Buildings	\$ 82,894		\$ 27,155		\$ 11,700	
Land	\$ 2,603,650	69%, 1120 acres	\$1,442,237	72% 628 acres	\$ 516,111	74%, 288 acres
Total Assets	\$ 3,755,645		\$1,996,857		\$ 701,715	
Net Farm Income	\$ 169,059		\$ 98,369		\$ 36,657	

Strategy	Success Rate					
	Op. Debt 3yr	No Op. Debt	Op. Debt 3yr	No Op. Debt	Op. Debt 3yr	No Op. Debt
Down the middle, commercial lending	1%	0%	0%	0%	0%	0%
Down the middle, family lending	2%	0%	60%	0%	73%	0%



The Value of Transition Planning

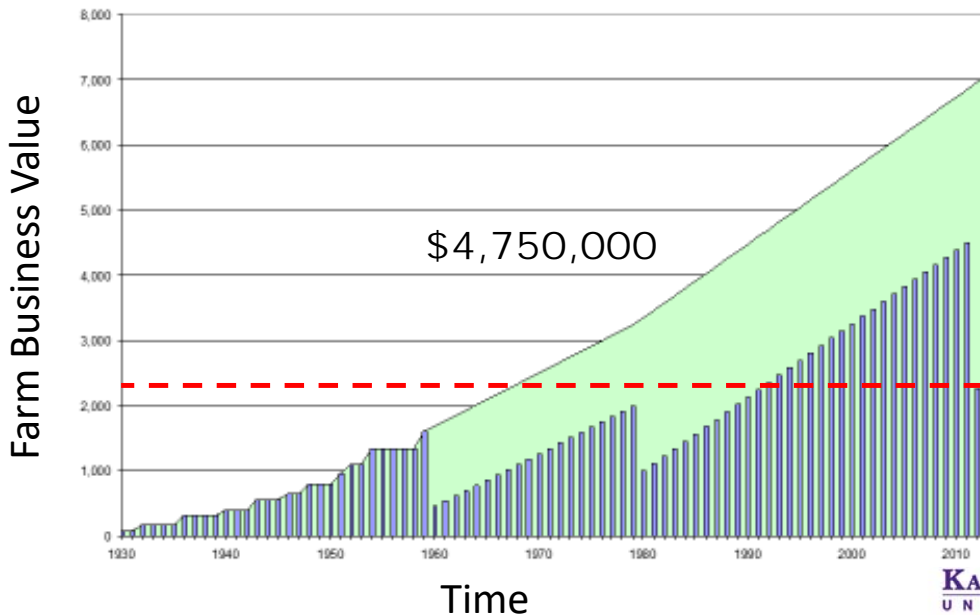


Illustration courtesy Dick Wittman, Wittman Consulting





Tools Used

- **Family Meetings and Communication**
- Buy and sell agreements
- Transfer on death deeds
- Clear division of assets in estate plans
- Long-term lease agreements
- Business entities

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Affordability

- KFMA estimates close to \$90,000 for family living expenses not including taxes
- The farm would need to have net farm incomes close to \$200,000 to afford the two families
- Additionally, farm kids need to make enough money to be able to buy out parents

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What could go wrong?

- Next Generation goes bankrupt
- Older Generation cannot retire



Tools Used

- **Family Meetings and Communication**
- **Farm Financial Analysis**
- Retirement Planning
- Life Insurance Policies
- Non-cash compensation worksheets



Generational Differences

- Family-first mentality
- More expectations on family lifestyle
- More awareness of living wages and needs
- Workplace flexibility
- Communication looks very different (texts vs. morning coffees)



What could go wrong?

- Older Generation will not let go
- Next generation not interested in coming back

Tools Used

- **Family Meetings and Communication**
- Employment contracts
- Communication of expectations, values, and how it will work moving forward
- Continued family meetings to discuss communication expectations

Long Term Care Planning

- People are living longer
- Costs are skyrocketing
- Lived through Medicaid clawback
- Statistically, average days in a nursing home is 835 days (~2 years 4 months)

LOCATION	In-Home Care		Community and Assisted Living				Nursing Home Facility					
	HOMEMAKER SERVICES*	5-YEAR ANNUAL GROWTH†	HOME HEALTH AIDE*	5-YEAR ANNUAL GROWTH†	ADULT DAY HEALTHCARE*	5-YEAR ANNUAL GROWTH†	PRIVATE, ONE BEDROOM*	5-YEAR ANNUAL GROWTH†	SEMI-PRIVATE ROOM*	5-YEAR ANNUAL GROWTH†	PRIVATE ROOM*	5-YEAR ANNUAL GROWTH†
Kansas	\$54,912	4%	\$56,056	4%	\$21,450	2%	\$54,960	3%	\$75,555	4%	\$81,760	4%



What could go wrong?

- Need to sell land to pay for long term care
- Gift assets while alive and see children lose it for whatever reason
- IRS having a call back for Medicaid expenses



Tools Used

- **Family Meetings and Communication**
- Long-term care planning
- Identify assets to use for long-term care
- Discuss gifting while alive vs death
- Medicaid protection trusts
- Use of business entities to shield assets



Tax Exposure

- Putting tax exposure higher on priority than legacy of the farm
- Gifting while alive vs death vs selling
 - Capital gains tax
 - Income tax
 - Stepped-up basis



What could go wrong?

- Paying more taxes than necessary
- No transition while alive
- Waiting to die before assets turn over



Tools Used

- **Family Meetings and Communication**
- Continued conversations with accountant
- Business entities for operating assets
- Contract sales for land
- Mixing of gifting and selling



**Is your family facing
any of these issues?**



Fun Facts

- Long-term human mortality rate is 100%
- Implementation of an estate is NOT an “if” question, it is a “when” question
- “When” is an absolute mystery

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ELAINE FROESE QUOTE

- "Deal with the emotional factors affecting planning first, and then you will have a great foundation for being clear on expectations, creating timelines for agreements, and a commitment to action."

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AgKansitions

- Mission: Keep Kansas Families in Farming and Ranching
- Deliverables:
 1. Land-Link
 2. One-on-one consultations
 3. Beginning Farmer and Rancher Trainings

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Land Link Program

Development of a [LandLink](#) program to introduce exiting landowners with beginning farmers/ranchers through an application and curated matching process

- Land Seeker Applications Received: 75
- Landowner Applications Received: 18
- Land Seeker: Kansas, Wyoming, North Dakota, South Dakota, Iowa, Illinois, Ohio, Virginia, Kentucky, New York, Florida
- 3 of our Landowners have MATCHED

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One-on-One Consultations

Provide **one-on-one technical services** to facilitate transition planning by resolving family conflicts, evaluating different succession options, and facilitating meetings with professionals

- Families utilized this service: 60
- Follow-up Families: 30
- Comments back:
 - “more assertive than I expected, really helpful, not just asking a bunch generic questions, but actually getting to the points needing addressed”
 - “The information was very useful and easy to follow”
 - “provided us some clarity on the succession process”
 - “asked the hard questions that needed answers”

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Topic of Conversations for Family Meeting

- Legacy of the Farm
- Values of the Farm
- Goals
- Identify Steps of Succession Planning
- Financial Situation
- Potential Transition Ideas
- Estate Planning

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Beginning Farmer/Rancher Trainings

Develop an **extensive training program** for beginning farmers/ranchers to master critical financial and business skills.

Classes on Campus for K-State Students

- Next Gen Farmers and Ranchers CAT Community: Fall 2023
- Returning to the Farm Course: Spring 2024

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