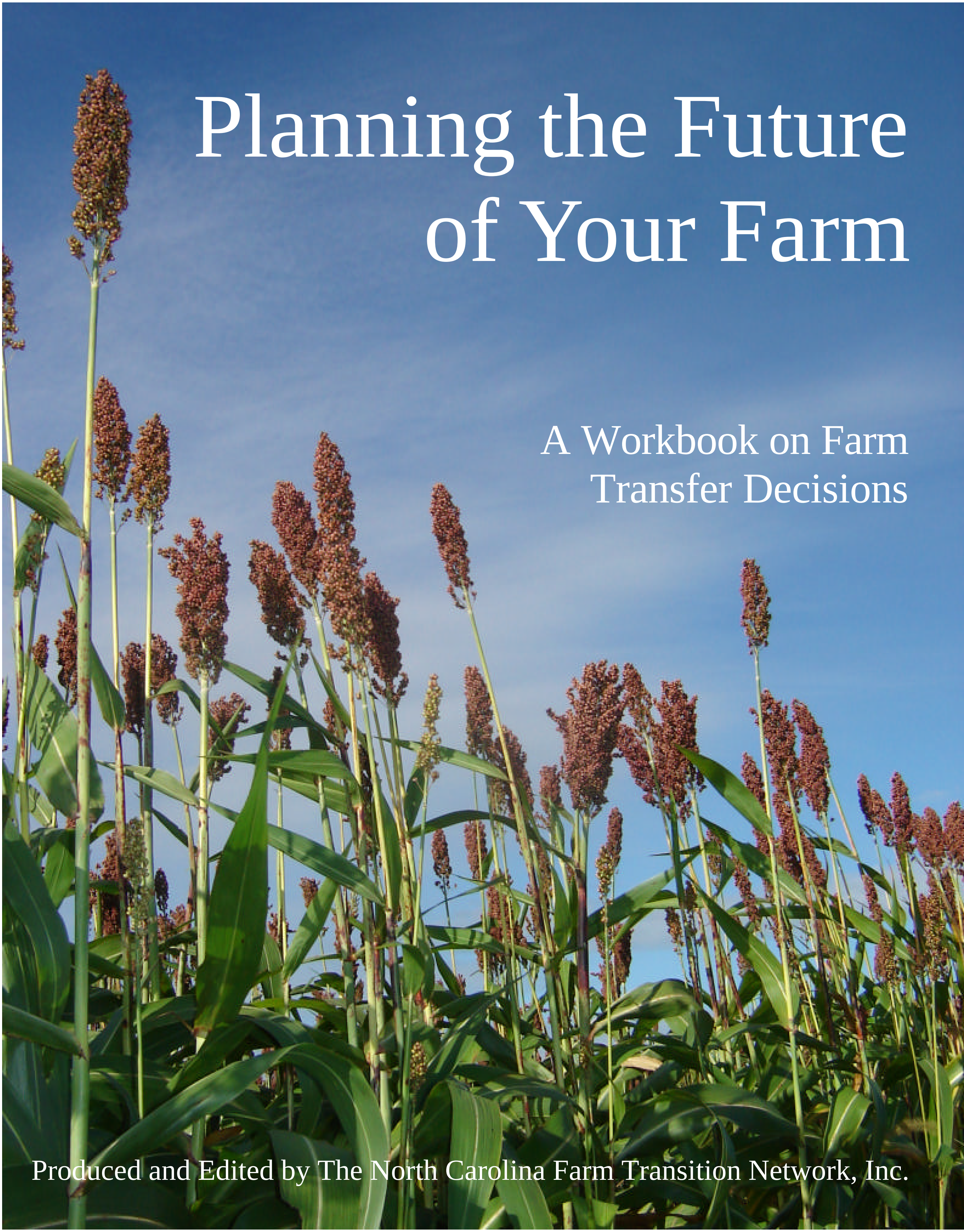

Planning the Future of Your Farm

A Workbook on Farm Transfer Decisions

Produced and Edited by The North Carolina Farm Transition Network, Inc.

Acknowledgments:

The North Carolina Farm Transition Network, Inc. expresses its appreciation for the support of its advisors, funding organizations, Board of Directors, and other organizations that helped produce this workbook and workshop series, including:

Ted Feitshans, Jesse Richardson, Alex White, Leon Geyer, Gary Bullen, Dr. Geoff Benson, Guido van der Hoeven, Dr. David Kohl, Dr. Kenneth Stokes, Sandy Yeatts, Tamara Marshall-Jones, Warren Hawkins, USDA Risk Management Agency, the North Carolina Farm Bureau Federation, North Carolina Cooperative Extension, Virginia Cooperative Extension, American Farmland Trust, Rural Advancement Foundation International, the Conservation Trust for North Carolina, the Southern Region Risk Management Education Center, Wisconsin Center for Dairy Profitability, Iowa State University Extension, the North Carolina Tobacco Trust Fund, the Golden LEAF Foundation, Inc., and the North Carolina Rural Center Agricultural Advancement Consortium.

All Photos: Andrew Branan

The North Carolina Farm Transition Network, Inc. (NCFTN) is a private 501(c)(3) with the mission to assist experienced and aspiring farmers in the effective transition of farm businesses. This workbook is part of our ongoing effort to provide tools to farmers, rural landowners, and their families designed to help our next generation of producers keep farms and land in production.

The materials in this resource workbook are for educational purposes only. While workshop presentations and the materials in this workbook deal with issues of a legal nature, none should be relied upon as legal advice.

This workbook was originally published under cooperative agreement with the USDA's Risk Management Education Division. Current publication is made possible with support from the Golden LEAF Foundation and the Southern Region Risk Management Education Center.

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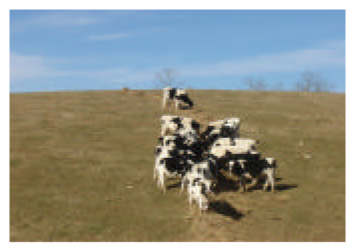
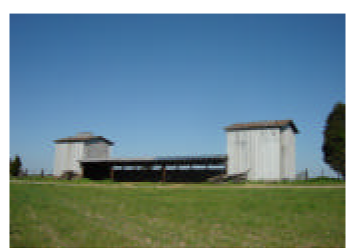




Introduction: About This Workbook

By Andrew Branan, Director, North Carolina Farm Transition Network, Inc.

As director of the North Carolina Farm Transition Network, I have spoken with farm operators, rural landowners, and their families in counties from Cherokee to Pasquotank. It seems that every farmer and landowner faces unique circumstances when it comes to making decisions on the future of their farm assets. Even so, the basic questions I am asked are the same.

The most common question is, "How do I get started?" My stock answer: "Figure out what you want to do, talk to your kids about it, and then go see a professional." Of course, all these are easier said than done.

A recent survey commissioned by NCFTN with funding from the North Carolina Tobacco Trust Fund Commission, found that just 25 percent of North Carolina farm operators had discussed their retirement plans with their families. Fewer than 10 percent had discussed their plans with a professional, such as an attorney or financial advisor. This tells me that a lot of farmers across this state have not made basic decisions about the future of their farms.

The average age of survey respondents was 59 years, indicating a large number of operators are approaching retirement and should be taking advantage of these critical planning years. The longer you wait to begin, the fewer options you have available.

For those operations where a goal is to get the farm assets under management of someone in the next generation — kin or otherwise — decisions need to be made and plans set in motion. This requires determining the economic and legal feasibility of your goals. The information and worksheets in this booklet are designed to help you work with family members and the professionals who can guide you through this process.

This resource workbook grew out of materials assembled for participants in NCFTN's workshop series *A Comprehensive Approach to Farm Business Succession*, conducted from 2005-2006, with the help of North Carolina and Virginia Cooperative Extension services. These workshops focused on landowner decision-making by addressing the initial stumbling blocks to planning.

Workshop organizers always treated the situation as one of transferring the farm business as an income-producing asset. This is not entirely fair. The large majority of farms do not produce enough income to warrant serious transfer planning to a successor. However, where the angst of planning the distribution family assets ("keeping the farm in the family") were prevalent, even then we encouraged audiences to put the emotional decisions in the context of economic ones: adequate retirement income to live comfortably, sufficient income-earning capacity to interest a successor, managing the risk of losing control over assets, etc. I don't know how effective we were in *saving the farm*, but we learned from attendee evaluations that, at the least, there would be a lot of farmers and landowners talking to their families about these issues.

This workbook contains narrative materials to help farmers and their families better understand the issues surrounding farm business and asset transfer planning. Accompanying worksheets are designed to help answer preliminary questions and gather information to prepare for a more productive interaction with professional advisors such as accountants, attorneys and financial planners.

Some of the materials in this workbook are adapted from sources outside of North Carolina and Virginia, mostly from the mid-western states. This workbook is the first phase in adapting these materials to the needs of farm families in North Carolina's diverse agricultural economy. These materials can be used to initiate the complex succession planning of a farm business, or simply help with the basic estate planning decisions of rural landowners with no farming heirs.

We hope these resource materials will help meet the challenge of establishing a secure future for our senior generation of farmers while building the equity and farm management skills of the next generation. The NCFTN is available to help all North Carolina landowners with your farm succession planning. Please call us at 919-782-1705 or visit our website at: http://www.ncftn.org/.

Part One:
Assessing the Family Situation

The Challenge of Family Business Transition

By Dr. David Kohl and Alex White

Planning for the transition of a farm or small business is necessary if the family wants to pass on the legacy of the business to the next generation. For the more than 20 million family farms and family small businesses operating throughout America today, transition planning is no small challenge. Agriculture is on the forefront of this issue due to the aging of the farm population. The average age of the American farmer is 55, indicating that a significant turnover of management and farmland will occur within the next 20 years. Ownership of approximately 70 percent of United States farmland, the largest asset on farm balance sheets, is expected to change hands over this same time period.

In March 2001, Alex White and David Kohl, Virginia Tech, held a seminar on family business transition. This seminar was unique in that it paired students from a senior-level problem solving course at Virginia Tech with agricultural families from the Winchester, Virginia area. The students, under the guidance of White and Kohl, acted as facilitators to help each family with the main issues, potential problems, and possible courses of action related to family business transition. The main goals of the seminar were to discover transition planning issues and to help agricultural families base their transition plans on their life cycle rather than traumatic events such as death, disease, or disability. This seminar was sponsored by Valley Farm Credit, Rural Economic Analysis Program (REAP), and Virginia Cooperative Extension.

The objectives of this article are:

- to identify the major challenges facing the older and younger generations in family business transition
- to provide a sequence of planning steps that can be used in intergenerational transfers of business, and
- to outline the implications to the agricultural industry and small business owners based upon facilitated discussion during the seminar.

The Generation Paradox

Dialog from the seminar clearly indicated that each generation had differing business and personal goals. This "Generation Paradox" can lead to significant goal clashes during the transition phase. The conflict can be seen in the concerns of each generation.

Older Generation Concerns:

1. A common theme throughout the seminar was the conflicting goals between generations. The older generation was concerned about entrusting "their" business, the business they have built and managed, to someone else: "Would the next generation able to run the business as the older generation thought it should be run?"
2. Another common theme was whether the business assets would be able to generate sufficient income to support the older generation throughout their retirement years.
3. Other concerns of the older generation included developing a transition plan that treats all of their children fairly and equitably. This issue was particularly prominent in families who had children who were not directly involved with the family business.
4. Finally, lifestyle issues such as health care, living arrangements, and preserving the legacy of the family business were uncovered as concerns for transition planning by the older generation.

Younger Generation Concerns:

1. The younger generations had slightly different concerns about transition planning. Their main concern was the economic viability of the existing business. Would the family business be able to support both generations at the same time? Are significant changes to the existing operation necessary for its continued economic viability?
2. Several of the younger members of the seminar expressed concerns over whether they would be treated as partners or as hired labor after the transition. What amount of managerial freedom would they have? Would they be able to implement new ideas or make significant changes to the operation?
3. They expressed concerns about the stress of high debt loads necessary to maintain or expand the current operation and the possibility of having to buy out senior and non-business family members.
4. Communication of transition plans by senior members, management responsibility, and possible time away from the operation were also frequently mentioned.

A Typical Farm Family and Their Operation

The following typical farm family scenario was developed to facilitate discussion of the importance of organized transition planning. While the concerns and solutions would apply to *any* small business, an agricultural operation is used because the audience was predominantly comprised of farmers.

The farm is a third generation 100-cow dairy operation. The farm is very productive, has good soils, a top producing herd, and is in an area surrounded by many large dairy and crop farms. It is located outside a town of 500 people and is about 18 miles from a city of 30,000 that is supported by a large military base. The farm business has $780,000 in assets, $75,000 in liabilities (mainly on machinery). The average net farm income over the past 5 years has been $63,000 before taxes. Their lender's analysis of the operation indicates a strong equity position, but marginal profitability and working capital for a sustainable family farm business supporting two families.

The mother (Jill) and father (Jack) are 65 and 62 years of age, respectively, and are in the process of retiring. Aside from the farm, each has driven a school bus over the years, which provides Jack with annual pension income of $16,000 and Jill with annual pension income of $5,000. Jill expects to receive Social Security benefits of $5,000 per year, while Jack should receive annual benefits of $9,000. Jack and Jill both want to be actively involved in the farm during their retirement years. Jill, with the assistance of an accountant, keeps the books and does the associated paperwork. She also does some farm chores and runs errands for the farm. However, they both have health problems, which are a concern to each other and the children.

The farm is operated by their son Joe, who is 33 years old. He is married to Julie (age 32). They have three children. Together they own half of the cows and machinery and draw living wages and benefits from the farm. Julie has an associate degree in community service and is currently employed off the farm. Joe's oldest sister, Mary, is also employed off the farm. She is divorced and has a questionable credit history. Mary's son occasionally works on the farm. Joe's younger brother, Mike, farmed in partnership with Joe and his parents until a medical condition prohibited further involvement in the farm. Mike now has a very successful agricultural spraying service. He recently married. The youngest, Cindy, lives in Atlanta and is married to a successful computer consultant. Cindy has two sons who love to visit the farm during vacations.

Joe and his wife are concerned that they will lose the remaining parts of the farm to other family members because of the lack of a will and a formal estate plan. Furthermore, when Joe and Julie told his parents that they would like to start a trail riding business (horses are their hobby), a disgruntled Jack indicated that they would have to pass it by Jill for final approval.

What Next?

This business transition challenge is not atypical of those observed at the seminar or of farm families and small businesses throughout Virginia. As can be seen in this case study, some things, typically taken for granted, could lead to potentially disastrous consequences. The following points need to be considered.

Business Goals of the Parties Involved

Are Joe and Julie interested in continuing the operation in the current manner? Would they rather phase out the dairy operation in favor of the horse operation? Can the current operation easily support Joe and Julie, as well as Jack and Jill? These questions must be answered in a transition planning process. The owners and managers (and their spouses) must have a clear vision of the future of the business. This vision will greatly simplify transition planning by providing direction for the future of the family business.

Personal Goals of All Parties Involved

Personal goals can get sticky. Suppose Joe and Julie want to phase out the dairy operation or decide to quit farming altogether. While getting out of farming may fit Joe and Julie's personal goals perfectly, how will Jack and Jill react to seeing the farm they helped build close its doors? Or Cindy's kids who love to visit the farm? If these issues are not discussed in a calm, clear, open manner, someone's feelings are likely to get hurt, which can lead to severe family problems. All parties involved, including the spouses, children, and non-business family members, need to honestly communicate with each other to develop a transition plan that works for everyone.

Transition Plans Help a Family Face Harsh Realities

One of the immediate questions the family will have to answer is, "Who will help support the surviving parent, now that part of the pension income has been lost?" If Jack dies first, who will help support Jill? She cannot live on $5,000 per year pension and a small Social Security income. Does she move in with Joe and Julie and their children, or Cindy and her family, or Mary, or Mike? Or does Jill move into a retirement community, so that she will not be a burden to the family? If she goes to the retirement community, who will help her pay the $40,000 annual expenses? Without a transition plan and a formal will, the disposition of the farm assets owned by Jack and Jill is fairly straightforward. Assuming the deeds and titles for these assets are in Jack and/or Jill's name, the farm assets owned by Jack and Jill will be split evenly among all five children, as per Virginia intestacy laws. Along with the distribution of the physical property, decisions will have to be made about the management of the business. Will Joe have to pay rent to his siblings so that he can keep the farm in production? With five owners in the business, who will be the primary decision maker? Will Joe have to purchase his siblings' share of the farm so that he can manage it as he has in the past? Many of these potential problems can be avoided or minimized by developing a comprehensive transition plan for the family business.

As the situation in this case now stands, the problems will start after a shock to the family (death of the parents); at that point, it is too late to start transition planning. Typically, families who start the transition planning process before the shock have the family businesses that successfully operate from one generation to another.

Simplifying Transition Planning

Transition planning can be a complicated and sometimes confusing process. It involves personal goals, concerns, and financial and legal issues. The following three steps can simplify the process:

WHEN FAMILY BUSINESS TRANSITION MAKES NO SENSE

By David M. Kohl

Recently, while addressing a group on modernization and expansion of the farm business, I was asked, "How successful have you been at steering students away from unprogressive operations?" My initial response was that I had not been very successful, but further thought shed a different light.

Planning the future of the family business is not simply a one-time event. The world is too complex and the family's goals and philosophies change over the business and personal life cycle. When a young person or partner is considering entering a business, the following are some key considerations. If your response to many of these points is "no," there is a higher probability of possible problems out of the gate and down the road.

1. Specific Responsibility and Accountability

One of the first signs of transition challenges is when the partners or older generation fail to define roles and responsibilities in the business. Often the young person is lured into the business and becomes a "Jack of all trades." However, they stay in that employment development path forever. A general rule is that the new partner or younger generation should be making some management decisions within a six-year period.

2. Lack of Outside Experience

I frequently have the opportunity to observe a young person just out of high school who loves agriculture and the area, then goes away to school, becomes disenchanted and quickly returns to the farm and family nest. Usually within two or three years, this person gets married. The business is generally not sufficient size in cash flow and the daughter or son-in-law becomes upset. The results are predictable. The younger generation usually leaves the farm or gets divorced, and family blow-up ensues. **Solution**: get experience away from the business for 3 to 5 years.

3. Size and Efficiency Counts

Before a partner returns to a business, determine the additional or incremental earnings required for entry. If it is insufficient, the spouse must be willing to make up the difference in non-farm earnings to maintain a standard of living. Here are some interesting perspectives. If a young person desires a family withdrawal of $40,000 annually, including benefits, the following productive units may be required: For a dairy with average net income per cow of $500, the increase would be 80 cows. For a dairy with an average net income of $500 per cow, the increase would be 80 cows. Deviations in net income per cow increases the range to 200 cows for inefficient operations to as low as 50 additional cow units for highly efficient dairymen. Shifting to crops if the net income per acre was $100, the additional productive acres would be 400. Lower it to $50 per acre, then an additional 800 acres would be required.

In a cow-calf operation, if the cow unit nets $125 per herd, a full-time partner without additional off-farm earnings would require another 300 to 350 cows. These are just a few of the scenarios that illustrate how the dollars and cents relate back to production numbers. You do the math on your operation.

4. Grandma's and Grandpa's Estate Plans
Often in the agricultural community with tight knit extended families, grandparents of the Great Depression generation are very tight-lipped about provisions in their estate plans. To compound this problem, you perceive that Uncle Jim and Aunt Betty who have nothing to do with the farm will share in the estate. Failure to have open and clear discussions of family business estates is a sign of potential problems. The old saying is, "Either pay now or pay later!" To carry on the family legacy, open communication is the key.

5. Decisions Made on the Run
Are the partners too busy with the every day $100 decisions and overlook the $10,000 a day aspects such as transition planning? Is your spouse, who is not immediate family, not invited to family discussions? If this sounds like your family, you're not alone. The above scenario gets caught in "episodic" transition planning, i.e. a major event such as death of a key partner, leads to an emotional and traumatic fix to a neglected business practice. This usually results in the loss of money, family harmony, and time.

"Life cycle" or disciplined planning is critical in any family business. Periodic time-outs or short sabbaticals from the daily grind is essential to maintain continuity and energy in the business.

6. Guilt Trip
You go away to college. Mom and Dad call to tell you the farm is going down fast. They can't get away for vacation or time off. Your best cow is sick. This scenario has played itself out numerous times in my teaching career. My best advice is to stay in school. If Mom and Dad are good managers, they will work the problems out.

7. 21st Century Business
Is the business and location you are returning to an opportunity to establish productive roots for an extended period of time? Does it have the soil, water, and markets that make it viable? Are you near a locale that has the infrastructure, schools, hospitals, and shopping areas that make it appealing to the early 21st Century family? The old rule is that young people like to be located within a 45-minute drive of the mall.

1. Recognizing the Potential Problems

The first step is to attempt to get the family to recognize that potentially serious problems may be related to business transition. Sometimes a seminar, article, or book with related anecdotal situations can be the motivational force that starts the transition planning process. Without this recognition, the typical transition occurs after a shock to the family or business. Typical traumatic events that lead to belated planning include death or disability of a family member, divorce, or unplanned termination of the business. Waiting until the occurrence of this "trigger" typically leads to emotional decisions that may spell financial disaster for the family.

2. Building a Transition Management Team

The second step is to develop a Transition Management Team (TMT). The services of a facilitator or project manager can help build the TMT. The facilitator should be a good listener, quick to understand the business and family conditions, patient yet firm, and able to remain neutral. The facilitator will be instrumental in determining commonalities and points of departure in the goals, problems, concerns, and challenges of all interested parties (including spouses and non-business family members).

The TMT might include an accountant, an attorney, a financial planner, and a lender. Other individuals, such as crop/livestock consultants or other specialists can be added as circumstances warrant. All TMT and family members should be present at meetings so that the exchange of ideas and potential solutions can be facilitated. Formal minutes should be kept from each meeting and distributed to each member.

The facilitator should establish a timeline for the process. It should include specific accomplishments and expectations for each individual. Ground rules should be established up front. The process usually takes between 3 to 15 months, depending on the complexity of the plan and the schedules of those involved.

3. An On-going Process

A transition plan is not something that is written once, filed away in a drawer, and forgotten until it is needed. It is a work in progress that needs to be revised as the business and family grow. Transition planning is an investment in the future of the family. Investments in transition plans may range from as low as $2,000 for a basic plan to over $15,000 for complex cases. Many people think the costs too expensive to justify; however, the cost of not having a transition plan or of having a poorly devised transition plan, is much greater.

Implications

The seminar and case study provided a logical format to analyze the concerns and issues of intergenerational transition planning. First, a methodical planning process, with professional assistance and an investment in time and money, has a positive cost benefit to the family, the industry, and the Commonwealth. In the future, agricultural and small business owners will be challenged to obtain resources from the Cooperative Extension Service, educators, and leading agricultural groups. This creates a need for personal or web-based assessment tools that can be used as motivators in the transition planning process.

Second, seminar participants walked away with a heightened awareness that coordination of facilitators and professionals is essential to ensure that planning activities are carried out in a timely fashion. These groups should be identified and made available to the public, such as with the Service Corps of Retired Executives (SCORE) in the small business arena.

Third, assessment and diagnostic tools need to be refined, based on the complexity of the case. For example, a large business may have a different set of criteria and challenges than a smaller business.

Finally, seminar and course evaluations make it apparent that undergraduate and graduate students, as future leaders of the industry, need to be exposed to the complex, real life issues facing agricultural and small business owners.

¤

Dr. David Kohl, Professor Emeritus, Department of Agricultural and Applied Economics at Virginia Tech. **Alex White,** Instructor, Department of Agricultural and Applied Economics at Virginia Tech.

(This article originally appeared in *Horizons*, volume 13, Number 5, September/October 2001.)

SURVEYING FARM OPERATORS ON SUCCESSION PLANNING

In the winter of 2005, NCFTN, with funding from the North Carolina Tobacco Trust Fund, commissioned the Ag Statistics Division of the North Carolina Department of Agriculture and Consumer Services to conduct a survey of farm operators across North Carolina on various issues relating to their planning for the future of their farm operations. The survey instrument, part of the international FARMTRANSFERS research project, asked questions specific to family discussion, use of estate planning tools, and management transfer to a successor. The results provide key insight on what level into attitudes toward planning. The survey went to a random sample of 3,042 farmers and resulted in 2,099 responses, a response rate of 69%. Findings include:

If you become a farmer, do you have a job for life? About 50% of farmers surveyed indicated they never plan to retire. Another 35% plan to semi-retire, still operating the farm while receiving retirement benefits like social security or pensions. Of the 18% of farmers who plan to retire, they expect to do so at age 65.

Retirement planning. Around 67% of respondents have not discussed their retirement plans with anyone. However, others have made their plans known: 25% said they have discussed their plans with family members; 7% have consulted a professional advisor.

Estate planning. Almost 43% of respondents do not have an estate plan in place, and 42% do not possess a will. Life insurance was the most commonly reported estate planning tool, with 70% of farmers claiming ownership of life insurance.

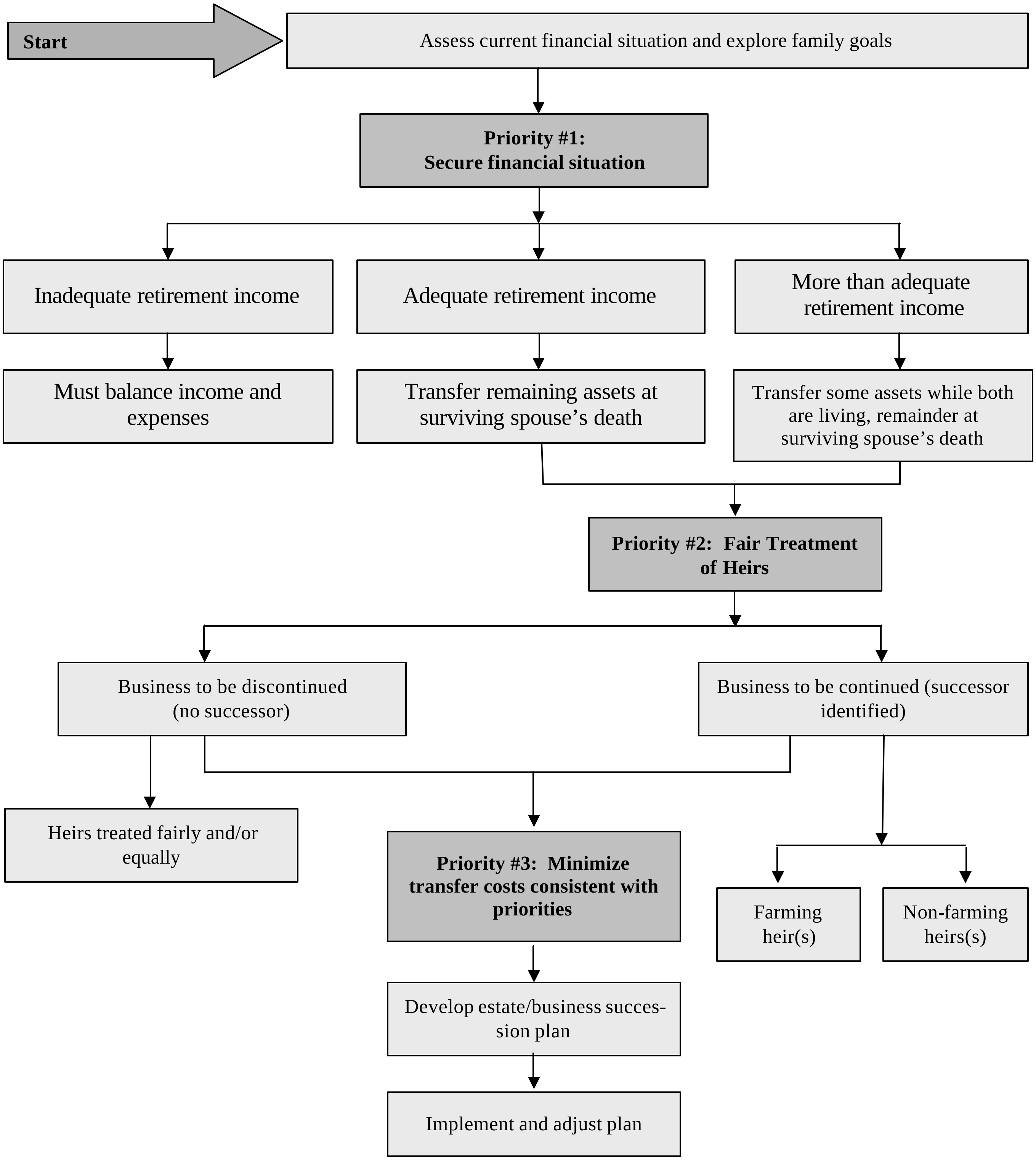
Successors. Almost 75% of North Carolina farmers have not identified someone to manage their farm after they retire. Of the 26% who have named a successor, most often, this successor was a son or daughter-- average age of 33 years-- 50% of whom currently work off the farm.

Passing Down the Farm. When asked about their plan for passing the farm through the estate to multiple heirs, 33% said they would divide the assets equally; 22% said they would keep it in the family or as one unit; 4% planned to sell; 10% had other plans or were undecided. Thirty-one (31%) percent said "No Comment."

As of this publication, full data from the survey is still being analyzed.

Succession Planning Flow Chart

(Adapted from *Business Management for Farmers: Planning the Late-career, Retirement-mode Years*, Midwest Plan Service, 2003))



Worksheet: Rating Lifestyle Values and Choices

Adapted from Farm Transfers in Wisconsin: A Guide for Farmers, *Wisconsin Dept. of Agriculture*

(Please rate in importance for you personally of each item listed below [with 1 = not important; 2 = important; 3 = very important]. Then discuss each item with your spouse and/or other family members. Copy and have each family member use the survey to help get a clearer picture of what is most important to each in the farm transfer process.)

1.	I want the farm to remain in our family's possession.	1	2	3
2.	I want the farm to continue to be farmed after I/we retire.	1	2	3
3.	I want to keep physically involved in the business after I retire.	1	2	3
4.	I would like to see my children play a part in the continuation of the farm.	1	2	3
5.	I would like the division of farm property among our children to be equal in dollar value.	1	2	3
6.	I want the division of farm property among our children to be fair (not necessarily equal).	1	2	3
7.	It's important that my spouse and I agree on the plans for transfer of the farm.	1	2	3
8.	It's important that my spouse and I have enough money for retirement.	1	2	3
9.	I want to have the financial resources to do new things after farming.	1	2	3
10.	It's important that our children agree with our plans for the farm's future.	1	2	3
11.	I want to help our children establish themselves in careers outside farming.	1	2	3
12.	I want to be able to give financial help to our children who choose a non-farm career.	1	2	3
13.	I want to be able to give financial help to our children who choose a farm career.	1	2	3
14.	I would like to maintain some financial control over the farm throughout my life.	1	2	3
15.	I would like to be involved in decision making for the farm throughout my life.	1	2	3
16.	I would like our children to play a part in the decision making for the farm's future.	1	2	3
17.	I would like our children to assist in my/our plans for retirement.	1	2	3
18.	I want to receive what our farm is worth when it is transferred.	1	2	3
19.	It's important to me that our children take over the management of the farm.	1	2	3
20.	It's important to me that our children choose farming as a career.	1	2	3
21.	It's important to me that our children have the opportunity to choose a career outside farming.	1	2	3
22.	I want our children to have the opportunity to continue the operation of the family farm.	1	2	3
23.	I would like everyone in the family to be satisfied with the way the farm/estate is handled.	1	2	3
24.	It's important to me that our children's requests regarding the farm transfer be honored.	1	2	3

Worksheet: Objectives and Goal Setting

Prepared by Dr. Geoff Benson

(Make copies of this sheet and have each family member fill it out for discussion at family meeting)

Long Run Objectives (5 to 10 years)

A. Personal

1	
2	
3	
4	
5	

B. Farm, other business or career

1	
2	
3	
4	
5	

Short Run Goals (12 months to 2 years)

A. Personal

1	
2	
3	
4	
5	

B. Farm, other business or career

1	
2	
3	
4	
5	

Worksheet: Setting Priorities *Prepared by Dr. Geoff Benson*

(This worksheet is for summarizing the discussions and agreements reached in a family conference that reviews and discusses the objectives and goals from the "Objectives and Goal Setting" worksheet filled out by each family member)

List the Family's longer run objectives in order of importance	
1	
2	
3	
4	
5	
6	

List the Family's shorter run goals in order of importance	
1	
2	
3	
4	
5	
6	

List the conflicts between the above goals and objectives	
1	
2	
3	
4	
5	

List your top 5 goals that will lead to achieving the priority objectives	
1	
2	
3	
4	
5	

Worksheet: Rating Your Comfort Level – Older Generation *Prepared by Alex White*

*(The table below contains a list of possible actions for your farm during/after the farm transition process starts. Please rate **your personal level of comfort** for each of these actions on a scale of 0-10 [Zero indicates you are very uncomfortable with taking that action; 10 indicates you are extremely comfortable with taking that action]) low contains a list of possible*

	Very Comfortable								Very Uncomfortable		
Expanding the size of the operation	0	1	2	3	4	5	6	7	8	9	10
Reducing the size of the operation	0	1	2	3	4	5	6	7	8	9	10
Taking on large amount added debt	0	1	2	3	4	5	6	7	8	9	10
Adding new enterprises	0	1	2	3	4	5	6	7	8	9	10
Eliminating one or more enterprises	0	1	2	3	4	5	6	7	8	9	10
Making dramatic changes to the operation	0	1	2	3	4	5	6	7	8	9	10
Taking more time away from the operation	0	1	2	3	4	5	6	7	8	9	10
Increasing the amount of physical labor you provide to the operation	0	1	2	3	4	5	6	7	8	9	10
Increasing your managerial responsibilities	0	1	2	3	4	5	6	7	8	9	10
Relinquishing managerial responsibilities	0	1	2	3	4	5	6	7	8	9	10
Working with a new managerial partner	0	1	2	3	4	5	6	7	8	9	10

Comments: ____

Worksheet: Rating Your Comfort Level – Younger Generation *Prepared by Alex White*

*(The table below contains a list of possible actions for your farm during/after the farm transition process starts. Please rate **your personal level of comfort** for each of these actions on a scale of 0-10 [Zero indicates you are very uncomfortable with taking that action; 10 indicates you are extremely comfortable with taking that action])*

	Very Comfortable								Very Uncomfortable		
Expanding the size of the operation	0	1	2	3	4	5	6	7	8	9	10
Reducing the size of the operation	0	1	2	3	4	5	6	7	8	9	10
Taking on large amount added debt	0	1	2	3	4	5	6	7	8	9	10
Adding new enterprises	0	1	2	3	4	5	6	7	8	9	10
Eliminating one or more enterprises	0	1	2	3	4	5	6	7	8	9	10
Making dramatic changes to the operation	0	1	2	3	4	5	6	7	8	9	10
Taking more time away from the operation	0	1	2	3	4	5	6	7	8	9	10
Increasing the amount of physical labor you provide to the operation	0	1	2	3	4	5	6	7	8	9	10
Increasing your managerial responsibilities	0	1	2	3	4	5	6	7	8	9	10
Relinquishing managerial responsibilities	0	1	2	3	4	5	6	7	8	9	10
Working with a new managerial partner	0	1	2	3	4	5	6	7	8	9	10

Comments: ____

____

____

____

____

____

Worksheet: Your Retirement Lifestyle Plan

(As you rate you comfort level with turning over certain elements of farm management, it is also useful to think about how you will spend your time in later years if or as you cut back from farm activities. In the spaces below, put down your ideas on what you want your retirement to look like.)

Activities	**What will you do and where will you do it?**	**How much time per week? (or which months)**	**Related expenses (dues, clothing, travel, material)**	**How will your health affect your planned activities?**
Farm Work				
Involvement in organizations (church, farm bureau, etc.)				
Second career				
Special interests and hobbies				
Travel				
Visiting with friends and family				

(Adapted from *Business Management for Farmers: Planning the Late-career, Retirement-mode Years*, Midwest Plan Service, 2003)

Worksheet: Estimating Income and Expenses

(Use this sheet for some preliminary calculations on your current and future income sources and needs.)

Part I: Income	**Current**	**Anticipated Retirement**
Wages (Annual)		
Social Security		
Pension/IRA/401K		
Social Security		
Other Farm Income		
Other Business Income		
Pension/IRA/401K		
Taxable Interest		
Tax-Exempt Interest		
Dividends		
Rental/Lease Income		
Annuity Payments		
Other (eg. Alimony, child support)		
Total Gross Income		
Estimated Taxes		
Federal		
State		
Medicare/Social Security		
Total Taxes		
TOTAL NET INCOME		
Part II: Expenses		
A. Housing		
Gas / Oil / LP		
Electric		
Real Estate Taxes		
Mortgage Payments (P+I)		
Home Equity Line		
Home-Owners Insurance		
Rent		
Gas / Oil / LP		

Housing Expenses (cont'd)	**Current**	**Anticipated Retirement**
Homeowner/Condo Association Dues		
Water / Sewer / Garbage		
Telephone		
Maintenance & Repairs		
Lawn Care / Cleaning		
Miscellaneous Household		
B. Food/Clothing/ Transportation		
Food / Groceries / Supplies		
Clothing / Laundry / Dry-Clean		
Auto Loan / Lease		
Auto Insurance		
Gasoline & Oil		
Auto Maintenance /Tags		
Public Transportation / Parking		
C. Discretionary		
Charitable Contributions		
Movies/Concerts / Dining		
Recreation/Vacation		
Gifts (birthdays/holidays)		
Children Sports / Lessons		
Pet Veterinary		
Cable Television / Internet		
Total Expenses		
TOTAL NET INCOME		
TOTAL EXPENSES		
DISCRETIONARY INCOME		

Worksheet: Notes from the Family Meeting

Use this space to write down key notes from your family meetings. Make sure that each participant gets a copy

Meeting Date: ______________________ Place: ____

Time Started: ______________________ Time Adjourned: ______________________________________

Persons Present: ____

____

____

____

General Discussion Notes: ____

____

____

____

____

____

____

____

____

____

Follow-up Action Items:

Task	**Person Responsible**	**Target Completion Date**
1.		
2.		
3.		
4.		
5.		
6.		
7.		

Date/Time/Place of next meeting: ____

Part Two:
Tools for Evaluating Farm Assets and Income

Worksheet: Farm Net Worth Statement

Prepared by Dr. Geoff Benson

Use this worksheet to determine your farm operation's net worth. Later worksheets will also help you estimate the overall value of your estate. Supply information below by filling out the schedules that follow this page.

Farm Assets	**Cost Basis**	**Market Value**	**Farm Liabilities**	**Market Value**
Farm checking & savings accounts (Schedule M)			Accounts payable (Schedule N)	
Crops held for sale or feed (Schedule A)			Farm taxes due (Schedule O)	
Investment in growing crops (Schedule B)			Current notes and credit lines (Schedule P)	
Commercial feed on hand (Schedule C)			Accrued interest – short (Schedule P)	
Prepaid expenses (Schedule D)			- fixed (Schedule Q)	
Market livestock (Schedule E)			Due in 12 months – fixed (Schedule Q)	
Supplies on hand (Schedule F)				
Accounts receivable (Schedule G)			Other current liabilities	
Other current assets				
Total Current Assets			**Total Current Liabilities**	
Unpaid coop. Distributions (Schedule H)			Notes and contracts, remainder (Schedule Q)	
Breeding livestock (Schedule I)				
Machinery and equipment (Schedule J)				
Buildings and improvements (Schedule K)				
Farmland (Schedule L)				
Farm securities, certificates (Schedule M)				
Other fixed assets			Other fixed liabilities	
Total Fixed Assets			**Total Fixed Liabilities**	
a. Total Farm Assets			**b. Total Farm Liabilities**	
			Current Assets (market) = ______Current ratio **Current Liabilities**	
c. Farm Net Worth (a – b)				
d. Farm Net Worth Last Year			**Total Liabilities = __________ Debt to** **Total Assets (market) asset ratio**	
e. Change (c – d)				

*Worksheets originally created by Iowa State University, Ag-Decision Maker Program.

Personal Assets		Personal Liabilities	
Bank accounts, stocks, bonds		Credit card, charge accounts, other loans	
Automobiles, boats, etc.		Automobile loans	
Household goods, clothing		Other loans, taxes due	
Real estate		Real estate, other long-term loans	
f. Total Personal Assets		g. Total Personal Liabilities	
h. Personal Net Worth (f - g)		Total Liabilities (b + g) = _______ Total Assets (a + f)	Total Debt to asset ratio
Total Net Worth, Market Value (c + h)			

Supporting Schedules

Farm Assets and Liabilities as of ____________________, 200 _______.

Schedule A. Crops held for Sale or Feed

Description	**Quantity**	**Unit**	**Price**		**Value**
Total	xxx	xxx	xxx		

Schedule B. Investment in Growing Crops

Description	**Acres**	**$/acre**	**Value**
Total		xxx	

Schedule C. Commercial Feed on Hand

Description	Quantity	Unit	Price	Value
Total	xxx	xxx		

Schedule D. Prepaid Expenses

Description	Quantity	Unit	Price	Value
Total	xxx	xxx		

Schedule E. Market Livestock

Description	Number	Avg. Weight	Total Weight	Price per Head	Value
Total	xxx	xxx	xxx	xxx	

Schedule F. Supplies on Hand

Description	Quantity	Unit	Price		Value
Total					

Schedule G. Accounts Receivable

Description	Value
Total	

Schedule H. Unpaid Cooperative Distributions

Source	Value
Total	

Schedule I. Breeding Livestock

Description	Number	Average Weight	Total Weight	Price per Head	Value
Total		xxx	xxx	xxx	

Schedule J. Machinery and Equipment

Description	(a) Previous Cost Basis	(b) Cost of Purchases & Trades	(c) Depre-ciation	(d) Cost Basis of Items Sold	New Cost-Basis (a+b-c-d)	Current Market Value
Total						

Schedule K. Buildings and Improvements

Description	(a) Previous Cost Basis	(b) Cost of Purchases & Trades	(c) Depre-ciation	(d) Cost Basis of Items Sold	New Cost-Basis (a+b-c-d)	Current Market Value
Total						

Schedule L. Farmland

Description and Number of Acres	(a) Previous Cost Basis	(b) Cost of Purchases & Trades	(c) Cost Basis of Land Sold	New Cost Basis (a+b-c)	Market-Value Per Acre	Total Market Value
Total					XXXX	

Schedule M. Farm Cash on hand, Checking Account Balances, Savings, Securities, and Certificates

Description – Farm Cash, Checking Accounts & Savings	Value	Description – Farm Securities & Certificates	Value
Total		Total	

Schedule N. Farm Accounts Payable		Schedule N. Farm Accounts Payable	
Description	**Value**	**Description**	**Value**
Total		Total	

Schedule P. Current Farm Notes and Lines of Credit

Source	Purpose	Balance-Owed	Accrued Interest
Total			

Schedule Q. Fixed Farm Notes and Contracts

Source/Purpose	Int. Rate	Date Due	Balance Owed	Due in Next 12 Months	Remain-der	Accrued Interest
Total						

Worksheet: Assessment of Farm Resources *Developed by Alex White*

Use this worksheet to rate yourself, other operators, and the overall condition of your farm resources, including the state of buildings, and the potential to expand and/or develop new markets. In rating personnel, you can copy the first three pages, have each operator fill out, and compare.

Part I: Human Resources (Key Personnel)

Operator 1: ____________________

Skill/Trait	Poor	Adequate	Strong
Production management			
Financial management			
Marketing management			
Personnel/Labor management			
Overall business management			
Organization			
Scheduling			
Creativity			
Innovation			
Decision making ability			
Ability to listen			
Logical thinking ability			
Work ethic			
Trustworthiness			

Suggestions for improvement: ____________________

____

____

____

Operator 2: ______________________________

Skill/Trait	Poor	Adequate	Strong
Production management			
Financial management			
Marketing management			
Personnel/Labor management			
Overall business management			
Organization			
Scheduling			
Creativity			
Innovation			
Decision making ability			
Ability to listen			
Logical thinking ability			
Work ethic			
Trustworthiness			

Suggestions for improvement: ______________________________

____

____

____

____

____

Operator 3: ______________________________

Skill/Trait	Poor	Adequate	Strong
Production management			
Financial management			
Marketing management			
Personnel/Labor management			
Overall business management			
Organization			
Scheduling			
Creativity			
Innovation			
Decision making ability			
Ability to listen			
Logical thinking ability			
Work ethic			
Trustworthiness			

Suggestions for improvement: ______________________________

____

____

____

____

____

Part II: Natural Resources

	Poor	Adequate	Strong
Water availability			
Water quality			
Soils – quality			
Land availability			
Hired labor availability			
Other:			
Other:			

Comments on Natural Resources: ____

____

____

____

____

____

Part III: On-Farm Facilities

Building 1:	Poor	Adequate	Strong
Current condition			
Capacity			
Layout/Design			

Building 2:	Poor	Adequate	Strong
Current condition			
Capacity			
Layout/Design			

Building 3:	Poor	Adequate	Strong
Current condition			
Capacity			
Layout/Design			

Building 4:	Poor	Adequate	Strong
Current condition			
Capacity			
Layout/Design			

Comments on Facilities: ____

____

____

____

____

Part IV: Local Infrastructure

	Poor	Adequate	Strong
Availability of supplies			
Local Repair Services			
Availability of financing			
Availability of transportation			
Availability of processing			
Road system			
Local zoning policies			
Government support of agriculture			
Local support of agriculture			
Urban pressure			
County Economic Development			
Voluntary Agriculture District			
Availability of health services			

Comments on Local Infrastructure: ____

____

____

____

____

Worksheet: Sketching a Farm Asset and Management Transfer Plan

Use this worksheet to sketch out your initial ideas on how you would like to transfer assets and management. This is a preliminary step prior to consulting with tax and legal advisors.

I. How will grain, feed, market livestock be transferred? (by sale, gift, will etc.) ________________

____

____

____

II. How will breeding stock and machinery be transferred?

A. Breeding Stock (outright sale, installment, gradual, lease with option?) ____________________

____

____

____

B. Machinery (gift, sale, lease?) ____

____

____

____

C. Who will pay for: Insurance? ______________ Major repairs? __________________

III. How will real estate be transferred?

A. Rental arrangement (cash/crop share? Rental rates and payments? Determination of future rates?

____

____

____

____

B. Options to buy, buy-sell agreements, insurance:

1. What arrangements will there be to aid the farming heir in gaining ownership? ____________

____

____

2. Will the land be sold? (when and how will price be determined?) ____________________

____

____

____

C. Farm Buildings:

1. Rental rates? ____

____

____

2. Arrangements for sale or gift? ______

D. Farm Residences:

1. Rental rates? ______

2. Housing arrangements for the long term? ______

IV. Handling of underlying debt on operation and assets

A. Will farm heir(s)/transferee assume existing debt? ______

B. Borrow elsewhere, pay off debt? ______

C. Plans to assess tax considerations? (who will hire/pay tax advice?) ______

V. What will be the arrangement for transfer of management responsibility? ______

VI. What will be the involvement of parent(s) in farming operation after retirement? Compensation?

Additional Notes: ______

Part Three:

Collecting Information for Your Estate Plan

ESTATE PLANNING: GETTING STARTED

Prepared by Ted Feitshans, JD

We usually take life for granted. Although death is a cold reality, who wants to think about it? Nevertheless, you owe it to yourself and your family to consider how your property will be divided at your death.

Other questions must be considered, too. Who will care for your minor children or aging parents? Will the family business be continued? Will your spouse be able to live comfortably on what you have left? Will death taxes consume your family's security?

All of these questions can be answered with an estate plan carefully drawn to fit your family's unique needs. Estate planning is for everyone, not just the elderly or rich. If ignorance, apathy or procrastination keeps you from planning your estate, you have unconsciously made some important choices. Your family will have to live with them.

Couples with young children who fail to plan their estate have chosen to have a court decide who will raise their children. Parents in a family business who fail to plan their estate have chosen to leave their spouse with sometimes only one-third of the estate they spent a lifetime building. You see, when you have no estate plan of your own, North Carolina law provides one for you. It is quite likely that the plan set out in state law is not at all what you want for your family.

People neglect their estate because "they don't have time" or they think it's "too expensive" But when is time better spent than when protecting your family's future? As for the expense, the modest sum you invest now in professional assistance will seem insignificant next to the expense your estate could incur in litigation, taxation and red tape. Worse than the expense is the family quarreling and confusion which could occur because you died without an estate plan.

What Is Estate Planning?

Estate planning is the process of developing a program for effective management, enjoyment, and disposition of your property at the least possible tax cost. Making a will is a crucial part, but it includes much more. Planning your estate means reviewing how you own your property, considering insurance needs and examining your family business structure. This task can be less overwhelming if you separate it into four basic steps:

- Initiate the discussion;
- Develop your objectives;
- Compile information
- Seek professional advice; and then
- Keep things updated.

Initiate the discussion

Many estate plans never get written because it is so difficult to bring up the subject of death. Adult children don't want their parents to think they are greedy or want to take over. Husbands and wives don't want to give the impression that they don't trust their spouses to look after them, and elderly parents often prefer not to think of old age and death at all. As one woman put it, “My father thinks that to make a will is calling it quits. After he draws it up, he may as well crawl away and die.”

There is no easy way to begin a discussion on estate planning. One way is to use this estate planning series as a springboard. Estate planning books, magazine articles and seminars in your community also offer natural icebreakers. Often the bad experiences of a family in which someone died without a good plan will start the family thinking.

Once the topic has been approached it should be easier to discuss concerns and goals. Tough choices often must be made, but the alternative is to abandon your right to decide. No one else can plan for your family like you can. Take a deep breath and begin.

List your objectives

Your family's goals are unique. And the goals of the family may be different than those of the individual.

Talk with your family and get an idea of their goals. Does your child expect to take over the family business? Do the other children feel apprehensive about being nudged out of the estate? Do your parents feel comfortable being named guardians of your minor children? Does your spouse in a second marriage agree that your assets be distributed to your children from your first marriage? Does your spouse feel confident that he or she can manage the property after your death?

After you have a feel for your family's goals, sit down and list your individual goals as well. Rank your objectives in order of importance if they conflict. Use the checklist here as a guide. Once your goals are clear, your estate plan can be tailored to meet your particular needs.

Choose a professional adviser

Estate planning is extremely technical. Most people do not have time to develop the expertise needed to draw up and keep current a good estate plan. That is why you should consider a team of professionals to help you. Professionals such as a life insurance underwriter, an accountant or tax adviser, a trust officer, a financial planner and an attorney are invaluable sources of information and advice. Life insurance underwriters or agents can review your insurance coverage and help you organize information for your attorney and tax adviser. The underwriter or agent will suggest ways to help you avoid liquidity (cash flow) problems upon your death. Many companies also suggest alternatives to avoid unnecessary death taxes.

Accountants or tax advisers are also knowledgeable of death taxes. They will help you figure the tax consequences of various types of transfers. Accountants or tax advisers can advise in business or property management, valuation of assets, and business continuation or sale.

Trust officers can suggest alternatives in choosing executors or setting up trusts. They also offer management and investment services. Financial planners review your entire financial situation and identify strategies to achieve your financial goals. They work with other professionals to develop your insurance, investment, retirement and estate plan.

WHAT MY ATTORNEY SHOULD KNOW

Save time and money by having the necessary information in hand for that first visit to your attorney. The following checklist is a tally of information your attorney will need. Worksheets in this booklet provide space to enter this information.

PERSONAL INFORMATION (family members, names, birth dates, addresses, occupations, social security numbers)

BANK ACCOUNTS (name and location, exact name on accounts, number on each account)

STOCKS AND BONDS (description, years purchased, number, exact name of owner, face value, cost)

LIFE INSURANCE (company, policy number, amount owned by husband, wife, joint, exact name of owner, insured, beneficiary on policy)

TRUSTS (type, location, trustee, who established, exact name of beneficiary, value, owned by whom)

NOTES, MORTGAGES AND ACCOUNTS RECEIVABLES (description, year acquired, value, person who owes you)

REAL ESTATE (list type of property and acres, location, year acquired, cost, owned by, market value)

PERSONAL PROPERTY (list livestock, motor vehicles, machinery, crop inventory, home furnishings, jewelry, art, antiques, personal items; describe cost and value and who owns)

LIENS AGAINST PROPERTY (property mortgage, name of creditor, date due, remaining amount due from husband, wife, jointly)

MORTGAGES AND OTHER REAL ESTATE DEBTS (description, name of creditor, date due and amount remaining to be paid by husband, wife, monthly, whether insured)

OTHER PERSONAL LIABILITIES (unsecured notes, insurance loans, notes endorsed, real estate taxes, personal property taxes, state taxes including income and inheritance, federal taxes including income, gifts, etc., unsettled claims, name of creditor, date due, amount remaining to be paid by husband, wife, jointly and which debts are insured by credit life insurance.

RETIREMENT BENEFITS (pensions, profit sharing, deferred compensation, social security, annual benefits for husband and wife, amount invested and death benefits)

OTHER FINANCIAL INFORMATION (income last year, current income, salary, retirement income, annuities, rents, interest, bonuses, dividends, trusts, capital gains, etc.)

WHERE ARE YOUR SPECIAL PAPERS KEPT? (Make a list and name exact location of husband's will and wife's will, deeds, insurance policies, stocks and bonds, financial statements, income tax returns for last five years, gift tax returns, contracts, partnerships and corporation agreements, profit sharing plan, divorce decrees, pre- and post-nuptial agreements, employment contract, pension benefits.

List adapted from: What My Lawyer Should Know, *by Neil E. Harl, Attorney at Law and Professor of Economics, Iowa State University*

The attorney is a key member of the team. He or she coordinates the work and helps you evaluate the advice of the others. Final decisions about your estate plan are made with your attorney's confidential assistance. The attorney then draws up the legal documents required. Call your professional adviser, and ask what information you should bring to. the appointment. You will need to review your financial situation, listing assets and liabilities. Accurate information about your net worth is particularly important for tax planning. The checklist entitled, **What My Attorney Should Know** (*see* sidebar) may help you make your list.

You also need to determine how your property is owned. Do you have a life estate or do you own property outright? Whose name is on the deed or bank account? This information is vital to determining how to legally transfer that property. Also before visiting your attorney, list the people you want as beneficiaries and personal representatives. Be sure of kinship status, full names, (including nicknames and maiden names) and proper addresses. Consider how you want your estate distributed should you outlive your beneficiaries.

The important thing to remember is that your estate plan will be only as complete as the information you give your professional. You can save time and money by taking stock of your situation and compiling pertinent information before your appointment.

Keep things updated

Suppose you drew up your will and "put things in order" several years ago. How often should you update your estate plan? Although you may change your will whenever you wish, there are three basic reasons to consider updating your will: 1) When there has been a change in your life; 2) When there has been a change in law; and 3) When you have changed your mind.

You should review your will periodically to see if it needs updating. Events that may trigger the need to update your will include marriage or divorce, birth of children or grand children, death of a loved one, a move to a new state, a major change in financial circumstances, and changes in the law (taxes, estates, probate, trusts, etc.)

Your professional team will be glad to help you review and modify your estate plan periodically to keep it current.

Worksheet: Locate Important Documents

(As you begin the process of estate and succession planning, it is important to gather certain documents to help assess your current financial position, property ownership, and prepare you for meeting with professionals. Doing this prior to meeting with professionals will save time, money, and will provide them with better information)

DOCUMENT	**LOCATION**
Birth Certificates (all family members)	______________________________
Marriage Certificates	______________________________
Divorce decrees/separation	______________________________
Military Service Record	______________________________
Social Security cards	______________________________
Medical Records	______________________________
Living Will	______________________________
Healthcare Power of Attorney	______________________________
Durable Power of Attorney	______________________________
Bequest list of tangible personal property	______________________________
Wills/trust agreements	______________________________
Cemetery deeds/burial instructions	______________________________
List of special bequests (to heirs, charity, etc.)	______________________________
Insurance policies	______________________________
Stocks/bonds certificates	______________________________
Real Estate Deeds	______________________________
Promissory notes, contracts, mortgages, receivables	______________________________
Partnership/corporation agreements	______________________________
Checking/savings account statements	______________________________
Pension statements	______________________________
Income/gift tax returns	______________________________
Farm and other business financial statements	______________________________
Safety Deposit Box key/safe combination	______________________________

(Adapted from *Business Management for Farmers: Planning the Late-career, Retirement-mode Years*, Midwest Plan Service, 2003)

Worksheet: More Information Your Attorney Will Need...

Prepared by Leon Geyer

Note: Several topics should be considered before you meet with the attorney who will draft a will or trust. Some of the most important topics follow.

Guardians for minor children: Who is best able to cope with the raising of your minor children?

Name ____

Successor ____

Factors to consider would include: age of proposed guardians and ages of their children; ages of your children and the number of them who are still minors; and health and financial situations of all parties. Decide on alternative choices, in the event your first choice is unwilling or unable to serve. If you name a couple as guardians and one of them dies, would you want the surviving co-guardian to act as sole guardian? What if they divorce? Is a brother, sister, grandparent or a close friend the better choice?

Living trust: Is it important to you to avoid probate? Is it important to maintain privacy? Make a list of your assets and approximate values, along with a list of mortgages on any property. Your attorney can give you an estimate of what it will cost your heirs to pass your estate through probate. A living trust is frequently used to avoid or reduce these expenses. Some of the advantages and disadvantages of this type of trust are presented later in this publication.

Do you want a corporate or individual fiduciary as executor or trustee? Executors and trustees are referred to as *fiduciaries* because of high standard of care required of them to manage the assets of another person.

Discuss the facts in your own estate relative to the list of advantages shown below.

Executor of the estate: If all or parts of your estate passes through probate, whom do you want to handle the details of paying your debts and death taxes, and distributing the remaining assets to the beneficiaries named in your will? A spouse is appropriate as well as adult children, close friend, accountant, lawyer, or a bank's trust department. The individual is paid. Successors (1 or 2) should be named in case the first predeceases you or is incapacitated.

Name ____

Successor ____

Trustee: If you have a trust, whether in your will or in a separate living trust, you will need to name a trustee to manage investments, pay taxes, make distributions, and so forth. In the event he or she dies, you will want to provide for one or more *successor trustees*. Many who establish a living trust will become the trustee with a trusted family member or institution taking over upon death or incapacity.

Name ____

Successor ____

Distribution of assets to spouse: Should all assets be distributed outright to the spouse? Should assets be held in trust for management purposes or incapacity of spouse? Do you want to use or be willing to use a trust to manage your affairs now or in the future?

Residence: Should the family remain in the present house? Can the family afford to remain?

Family business: Is there an heir-apparent? Can it expand to accommodate family?

Taxes: Is it important to reduce your death tax obligation? How can it be transferred? Does it matter? Yes ______ No ______

Distribution of assets to children: If you do not want your assets distributed outright to your children in the event of your demise, assets should probably be held in a trust. A "testamentary trust" can be created in your will as contingency provisions for underage children. Or, you can use a living trust with contingency provisions. The trustee will take care of minor children's needs as instructed in the trust. At some future time you will probably want to distribute the assets to the children. At what age? What about a child with disabilities? What about grandchildren?

Many people like to distribute a portion of the estate at several different times during their children's lives. (For instance, distribute ? at age 21, ? at age 25, and ? at age 30; or ½ at age 30 and ½ at age 35, etc.)

Your preference: ____ at age ____; ____ at age ____; ____ at age ____.

Do you want the estate to pass in equal share to children? Do you want some to have more because others have had more in the past or to provide adequate opportunities to keep the business in the family?

Final heirs: In the event your children predecease you before inheriting your estate, to whom would you want your estate to pass? For example, ½ to the husband's side of the family (e.g., parents, brothers, sisters, etc.) and ½ to the wife's side?

Charitable bequests: Would you be interested in making any charitable bequests? Such bequests may reduce your income and death taxes.

Who are they? ________________________________ ________________________________

Percent of estate? Outright gift? Restrictions? (Attach sheets)

Individual bequest: Are there special heirlooms or gifts of family treasures that you want individuals or family members to have? (Attach sheets)

ADVANTAGES OF A CORPORATE FIDUCIARY

- They don't die or become disabled; they are permanent.
- They are financially accountable for their mistakes.
- They are impartial as to the children, which may prevent the children from becoming bitter towards an individual trustee who happens to be a friend or relative, and who doesn't make distributions every time the children ask for something.
- They have investment expertise, tax and accounting abilities, and computer capabilities. Studies show that they save many dollars in an average estate.
- They refuse loans to "hard-up friends" of the trustee.
- They keep current with the constant changes in the law.

ADVANTAGES OF AN INDIVIDUAL FIDUCIARY

- A relative or friend may not charge a fee.
- A relative or friend may have a more personal interest.
- An individual may have special expertise (i.e., running the family business).
- They are financially accountable for their mistakes.

Some people prefer to use an individual *and* a corporate trustee as co-trustees to obtain the advantages of each.

Worksheet: Estate Planning Questionnaire

Prepared by Andrew Branan, JD

This document is designed to help you take stock of your personal and business wealth, your family situation, your current plans and ideas, so that your professional advisors will have a good starting point from which to guide you through the succession planning process. Your attorney or financial advisor may have a form similar to this one for you to complete.

I. **PERSONAL INFORMATION** Date: ____________

Your Full Name: ______________________________

Birth Date: ______________ Social Security Number: ______________________

Spouse's Full Name: ______________________________

Birth Date: ______________ Social Security Number: ______________________

Date, County, and State of your marriage: ______________________

Home address: ______________________________

Home telephone: (   ) ______________ Email address: ______________

Business Name(s) and Address(es):

Husband: ______________________________

Wife: ______________________________

Email Address(es): ______________________________

Business telephone: Husband (   ) ______________ Wife (   ) ______________

II. PROFESSIONAL ADVISORS:

Attorney: ______________________________

Address: ______________________________

Telephone: (   ) ______________ Email address: ______________

Insurance Agent: ______________________________

Address: ______________________________

Telephone: (   ) ______________ Email address: ______________

Financial Advisor: ______________________________

Address: ______________________________

Telephone: (   ) ______________ Email address: ______________

Accountant: ______________________________

Address: ______________________________

Telephone: (__________) __________________ Email address: ____________________________

Lender: ____

Address: ____

Telephone: (__________) __________________ Email address: ____________________________

III. ALL CHILDREN: (if any children are adopted or from a previous marriage, please indicate)

Name DOB SSN Address/City/State

1. ____

2. ____

3. ____

4. ____

5. ____

IV. MARRIED CHILDREN:

Child Spouse Name Grandchildren Name(s) DOB

1. ____

____

____

____

2. ____

____

____

____

3. ____

____

____

____

V. GENERAL FAMILY INFORMATION:

Does any child or grandchild have a health problem or handicap? Yes ________ No _________

If yes, please explain: ____

Are there any persons dependent on you? Yes ____________ No _________________

Monthly obligation: Alimony $ ________________ for ___________ years

VI. CURRENT ESTATE PLANS:

Does Husband have a will/trust at the present time? Yes __________ No __________

Location of original(s): ____

Does Wife have a will/trust at the present time? Yes ______________ No __________

Location of orginial(s): ____

Do you have a marital property agreement? Yes __________ No __________

VII. REAL ESTATE (Personal residences, farm properties, rental properties)

Location (state and county)	Ownership*	Basis** Cost	Estimated Value	Current Mortgage Balance

*List the name(s) that appear as grantees on the deed for each property to the best of your knowledge. If you are certain the deed contains language such as "jointly" or "with right of survivorship," please indicate.

**Basis is the value of the property at the point you came into its ownership, and is determined by the manner in which you acquired it. As a general matter, if you inherited it, your basis is the value placed on it during the estate settlement. If you purchased it, the purchase price is your basis. If the property was gifted to you, generally your basis is the same as the previous owner's. Basis is used to determine any capital gains you or your heirs may be exposed to by sale of the property.

VIII. BANK ACCOUNTS AND CERTIFICATES OF DEPOSIT:

Type of Institution	Type of Account	Ownership	Approximate Balance

IX. STOCKS AND MUTUAL FUNDS:

Company/ Fund Manager	Number of Shares	Ownership	Cost	Approximate Market Value

X. BONDS (Taxable and Exempt), TREASURY INSTRUMENTS, NOTES PAYABLE:

Description	Due Date	Face Value	Market Value	Ownership

XI. LIFE INSURANCE

Furnish the requested information for all policies on members of your family, including husband, wife and children. Be sure to include group insurance a member of your family may have through an off-farm job. Use additional sheets if necessary. Your insurance agent may be able to provide you with printouts of the information requested below.

	1.	2.	3.	4.
Insurance Co.				
Policy No.				
Insured				
Owner				
Type Ins.				
Face Value				
Cash Sur. Val.				
Loans				
Primary Ben.				
Conting. Ben.				

XII. RETIREMENT PLANS

If either spouse is entitled to any benefits under a deferred compensation, retirement or profit sharing plan, please provide the following information.

	Plan One	Plan Two	Plan Three	Plan Four
Participant				
Plan Name				
Plan Nature				

Expected Pmt.	______	______	______	______
Death Benefit	______	______	______	______
Contributions	______	______	______	______
Made by	______	______	______	______
Designated Beneficiary	______	______	______	______
Life Insurance In plan	______	______	______	______

If either spouse has established an IRA account, please furnish the following information:

Contributor	______	______	______	______
Investment	______	______	______	______
Approximate Value	______	______	______	______
Designated Beneficiary	______	______	______	______

XIII. INTEREST IN TRUSTS OR ESTATES:

Does any member of your family have any relationship to an existing trust as donor, trustee or beneficiary? ________ Yes______ No

Has any member of your family in the past received an inheritance from an estate? ________Yes______ No

If yes, please explain:

____

____

Does any member of your family have any interest (e.g. as a beneficiary) in a pending estate? ________ Yes______ No

If yes, please explain:

____

XIV. PERSONAL EFFECTS:

Please list all items having <u>significant</u> market value, such as jewelry, art, antiques, rare musical instruments, autos, boats, collections, etc. Please Note: Normal household furnishings <u>need not</u> be listed.

Description	Ownership	Estimated Value
______	______	______
______	______	______
______	______	______

(*Personal effects cont'd*)

XV. CLOSELY HELD BUSINESS INTERESTS

Company Name	Ownership Interest	Estimated Value

XVI. LIABILITIES (other than real estate mortgage)

Creditor	Amount Due	Date Payable

XVIII. GIFTING

Have you or your spouse made any gifts in any one year to any person which exceeded in value either a) $12,000 if made by you alone, or b) $24,000 if made by you and your spouse?

________ Yes ________ No

If yes, specify the amount of gift, date and donee:

Gift item and value	Date of Gift	Donee

Resources and Reading

Professional Referrals:

North Carolina Farm Transition Network, Inc.
P.O. Box 27766 • Raleigh, NC 27611 • (919) 782-1705 • info@ncftn.org • **http://www.ncftn.org**
NCFTN maintains a database of farm advisors including lawyers, financial and estate planners, accountants, and other business planning professionals

North Carolina Bar Association Lawyer Referral Service
8000 Weston Parkway • Cary, NC 27513 • (800) 662-7660 • **http://www.ncbar.org/public/lrs**
NCBA offers a referral service of attorneys across North Carolina in all areas of practice

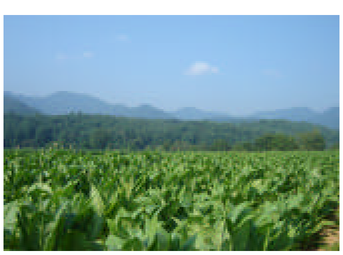
Resources on Farm Succession Planning:

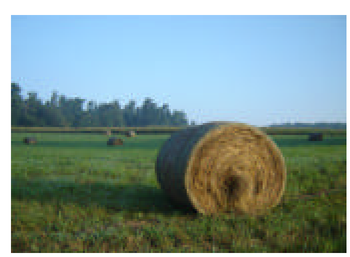
"Two Generation Farming" series (Iowa State University Extension, November 1998). This 3-part article series presents a succession planning model where two generations (senior and junior) work together and develop a workable plan. **"Step One: Getting Started"** is a solid introduction to the two-generation planning process, covering the critical elements of income division, asset transfer and management transfer. **"Step Two: Selecting a Business Arrangement"** is an examination of the legal agreements under which a two-generation operation might work, including wage and incentive agreements, operating agreements, and advanced business organizations. **"Step Three: Making it Work"** covers communication strategies essential to a successful two-generation operation, including conflict resolution and management development. Available online at **http://www.extension.iastate.edu/Publications**.

Business Management for Farmers, six-part series (Midwest Plan Service, Iowa State University, 1999) This series focuses on long range planning for farm businesses, covering all aspects of acquiring, managing, and transferring farm resources.. Series titles and topics are as follows: "Developing a Longer Range Strategic Plan," "Managing the Overall On-going Business," "Managing Crop and Livestock Systems," "Acquiring and Managing Resources," "Getting Established in Farming," and "Planning the Late-Career, Retirement Years." The series contains many worksheets, several of which inspired some of the materials in this workbook. Available for purchase from **http://www.mwps.org**.

"Who Will Get Grandpa's Farm? Communicating About Farm Transfer" by Dr. Sharon DeVaney, Purdue University School of Consumer and Family Sciences, Indiana. This is a website featuring different streamed video of different communication strategies role played by an Indiana farm family. Available at **http://www.ces.purdue.edu/farmtransfer.**

Other written resources are available by topic in NCFTN's Succession Planning Resource Library at **http://www.ncftn.org/planning**. Topics include family communication, retirement and estate planning, healthcare planning, farm business entity formation, along with samples of documents such as agricultural leases and conservation agreements. Call (919) 782-1705 ext. to request mailed copies of these materials.





NCFTN

North Carolina Farm Transition Network

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