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Farm Succession The Inside Scoop

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Family farm succession...



Who continues the legacy?

Agenda

1. Some statistics
2. Importance of planning
3. What is succession planning
4. Common barriers
5. Avoiding horror stories
6. Going without a plan
7. When to start
8. How and where to find help
9. Where to begin
10. Questions

Baby Boomers – Canada

- Canadian Boomers born 1952 to 1965
- The Canadian peak was 1959
- In Canada, the bulk of the Boomers turn 58 in 2017.
- Bulk of Boomers are still in the labour force and the explosion in the dependency ratio will not peak until 2024.
- The average age of exit from the labour force has been steadily increasing – many Canadians now retire after age 65.
- The tidal wave is not upon us yet.

We still have time to plan for impact.

- In the next five years it is likely we will see the biggest inter-generational transfer of wealth the modern economy has ever seen. Much of this wealth will take the form of shares in family businesses, which is why a more robust approach to succession planning is such a key priority for the whole family business sector – and indeed for the economies they help sustain. A change of this magnitude poses huge risks, but it's also opening up immense opportunities, with a new generation in waiting that's more ambitious, more open-minded, and arguably better prepared than any of those that have preceded it.

Source: PwC Family Business Survey

Alarming Stats

	Canada	Manitoba
Number of Farms	189,874	14,543
Number of Farms with Written Succession Plan	22,873	1,714
Percentage of Farms with Written Succession Plan	12%	11.8%

The Importance of Planning

- Why should you plan?
 - Maintain family harmony
 - Ensure the continued success of the farm operation
 - Protect the livelihood of the people who mean the most to you
 - Maximize the value you receive on the sale of your farm
 - Minimize income taxes
 - Ensure you have the wealth you require to live comfortably in retirement
 - Increases the likelihood the farm will remain viable and profitable through the transition

What is succession planning and what will it accomplish?

Succession is the *process* of transitioning the family operation to the next generation.

- A successful plan will transfer the human, business and financial capital to the next generation in a process best suited to achieve success and needs to include:
 - Retirement plan
 - Estate plan
 - Transition plan
 - Business plan
 - Land use plan

Succession Planning is not Estate Planning

There is often confusion between these two planning terms and while they are complementary, they are not interchangeable.

- **Estate planning** deals specifically with wills and legal documents, tax management strategies, investments, savings, insurance, estate distribution and contingencies.
- **Transition planning** or **succession planning** focuses on the next generation as they continue to be farm and must include a complementary estate plan, but not necessarily vice versa.

What is involved in a succession plan?

- It is an ongoing process that involves transferring knowledge, skills, labour, management, control and ownership from one generation to the next.

It is **NOT** a one-time event.



Succession Planning Barriers

Older generation:

- Unable to decide on a successor
- Don't want to give up control of the business
- Concerned about fairness and equality for family members
- Worried about family conflict
- Worried about life after farming
- Too expensive to develop a plan
- Not sure where to get help or find the right advisor
- Too many tough decisions!

Younger generation:

- Will do it later when there is more time (too busy)
- Fear of disrupting the status quo
- Anxious about the future and taking on more responsibility
- Contemplating the mortality of the older generation
- Worried about 'involvement' of older generation
- Fear of failure

The big issues

- Will my farm end up in the wrong hands, if one of my children get a divorce?
 - Very possible if you don't have a plan to prevent it
- I'm worried my plans (hopes and dreams) will cause fights in the family
 - Very likely if you don't communicate with all relevant parties in advance of the transition
- I'm not sure how to make sure my plans are fair to all my children
 - Fair is not Equal! There are a lot of great ways to address estate equalization. The sooner you address your farm succession goals the more options available to you.

Wait, I Can't Afford to Quit!

- What if I'm not ready to quit? Or what if I can't afford to?
- Retirement planning is one of the first steps in transitioning planning and will address:
 - When will you retire?
 - How much money will you need?
 - How much money will you have?
 - How do we fill the gap between have and need?

Can I Avoid a Farm Succession Horror Story?

- Of course you can; *but it takes proper planning.*
 - Farm owners ALL leave their operation at some point.
 - Uncontrollable events can not be predicted but they can be planned for.
 - Taking an active role in the planning process can help avoid catastrophe.
 - There is no silver bullet to make it easy or make challenges go away.
- The planning process should support your true legacy.
 - Preserving your family.
 - Keeping land in a family where relationships are deteriorating defeats the purpose of keeping wealth in the family and often leads to loss of wealth.

I'll be Okay Without a Plan

Many events can severely impact a farm family or a family business.

- Those that you cannot control...
death, disease, disability and disaster
- Those that can result from our decisions...
divorce, disagreement, disengagement and debt.

A farm or business transfer without legal tools and agreements in place to manage risks amounts to gambling with your and your family's future.

Some eventualities you can plan for:

- Death
- Disability – physical / mental
- Divorce / marital breakdown
- Divestiture
- Retirement
- Dissension / dismissal
- Other(s)

My family will be able to take care of the details when the time comes.

- Has anyone in your family had a minor disagreement about anything ? Big or small?
- Now add money, emotions, conflicting goals and priorities to the mix.
- There is a very big difference between what the farming child and the non-farming child view as fair. And rightly so. The non-farming child is equal in the context of the family but to treat them as such when dividing farm assets could mean the end of the family farm.

Do I Really Need Help?

Spoiler Alert: The answer is YES!

- It's true, the team approach can feel overwhelming, and sounds costly.
- It requires coordination and cooperation.

But consider the alternatives:

- Inadequate (or no) planning, leading to family fights.
- Loss of the farm to uncontrollable events.
- Anxious and unhappy senior generation.
- Displaced younger farm generation.
- Last minute forced decisions resulting in costly legal fees, heavy tax consequences and unhappy heirs.

What if I do nothing?

- Succession or transition will happen eventually regardless of whether you participate in the outcome.
- If you truly do NOT want to engage in the planning process sell your farm to a third party and spare your family the heartache.
- Doing nothing is the fastest route to failure

When should I start?

- Right now!
- Its never too early to start.
- It can be too late.
- Sit down and talk with your family. Get professional assistance. Make a plan. If it's not perfect, you can fix it; if conditions change, you can update it.
- Ideally, you should begin formulation your farm business transition and succession plan at least 5-10 years before your anticipated retirement.
- In fact, the transition and succession planning process should begin the day you take control of the farm business.



How to choose and work with an advisor

The key aspects of the role of an advisor are:

- To be an unbiased, information resource to the farm management team.
- Experienced in the complexity of multi-generational farm business transition.
- To guide the team in their decision making process – not simply tell them what to do.



What to look for when selecting an advisor

Communication and conflict resolution skills

- Communication is critically important in the transition planning process.
- An advisor will be expected to write and respond to emails, prepare documents and meeting agendas and lead discussions at meetings.
- A key factor in your relationship with your advisor will be how well he or she can effectively communicate in these areas
- Since there is a potential for conflict in transition planning, it is important an advisor be experienced in conflict resolution.
- They must be unbiased and maintain good behaviour in meetings, and bring differences of opinion to the middle ground.



How to Put Your Advisor to Work

- Formalize the relationship and clearly define expectations
- Sign an engagement letter with the advisor
- Formalize the fee structure
 - By the hour
 - By the contract
 - Contingency based
 - Retainer based
 - Other fees may be negotiable
 - Utilizing government programs
 - Final fee holdback can be used to ensure work is completed as per the engagement letter

Where To Begin

- Find qualified advisors you're comfortable working with
- Provide all pertinent information
- Decide which approach to planning is most appropriate for your business
 - Comprehensive
 - Condensed
 - Estate planning
 - Ownership transfer and tax strategy
 - User defined
- Determine what outcome you hope to achieve
- It's your plan and it should meet your needs!

How Long Will a Plan Take?

- A transition plan is a living document that helps guide decisions around ownership, leadership, business structure, tax strategies and contingency plans.
- There are several steps to developing a plan.
- These steps can take from several months to several years to complete depending on the needs and size of the business.
- A transition may be revised frequently to align with the changing environment and family circumstances.

What are the steps?

Phase One: Determining readiness

- Through a series of questions and interviews it will be determined if the farm and the family members are ready to begin the planning process.
- Planning requires an investment of time, money and emotional resources so better to know upfront whether your farm and family are ready.

What are the steps?

Phase Two: Plan Development

- Strategic direction
- Transition options
- Estate plan elements
- Human resources
- Agreements
- Deal breaker issues
- Accountant review
- Lawyer review
- Plan adjustments
- Meeting and communication

What are the steps?

Phase Three: Implementation

- Plan implementation is specific to each family, their circumstances and their wishes.
- Timelines will vary from farm to farm.
- Completion dates are a form of accountability and help to keep the implementation phase on track.
- Beware of procrastination!

CRITICAL QUESTIONS:

Your advisor will help you find the answers

- What is going to happen to the business in the future?
- How will we decide who gets what?
- What if more than one child wants the business?
- How do we account for the farming child's contributions to the farm so far?
i.e. sweat equity
- How can we know what everyone in the family thinks is fair?
- How will we treat the non-farming children so they feel they have been treated fairly?
- When should the transfer take place?
- Will we need assets to live on at that time?





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Questions?



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Thank You

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