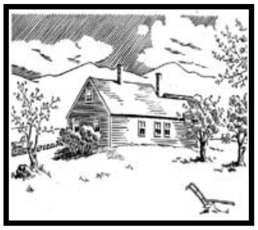
Chapter 4.
Developing Common Goals



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After initiating a dialogue about planning the eventual transfer of an estate, you may be anxious to visit a professional and start drafting documents. But what would the documents say? The first thing a professional will ask is, "What do you want the plan to accomplish?" The dialogue you've begun must move from a general recognition that planning an estate transfer is important to specific goals for the transfer.

This chapter is not about how to use the tools involved in estate transfer (the will, trusts, the various forms of property ownership, gifting, powers of attorney, and so on). Those are the means by which you carry out your goals.

This chapter is more about what you want to accomplish with the resources in the estate. Mainly it is about estate owners and their heirs apparent sharing and discussing their goals to accomplish something useful for the family. In this chapter we'll address

1. the various goals of individuals involved in the estate planning process, and
2. connecting goals to family interests.

When you finish you will have communicated about what is important and developed specific goals and objectives to accomplish.

A Road Map: Where are you going?
Finding the common ground and outlining and prioritizing goals for the distribution of an estate is essentially creating a road map for your family to follow. Like a map for a trip, it will describe immediate decisions, such as what to do on the first day. It will also identify the longer term elements (which we often ignore in agriculture): where do you want to go, and how long will it take to get there.

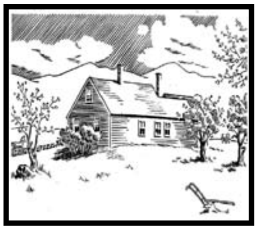
Creating this road map will do two important things. First it will give individuals something to work towards and an understanding of why it's important, and second, the goals will provide a measure of progress – goals are typically quantifiable and have timelines. These are goals you can take to an estate adviser who can then fashion a suitable plan. An example might be to know by the end of the year what transfer taxes will be due if no estate plan is in place. Or, to transfer 25 percent of the machinery within two years.

During the dialogue the role of initiator may shift. At some point the original initiator, having started the dialogue, may recede to the background as other people become interested and the dialogue develops. That shift may occur at the goal-setting stage. In this stage the senior generation, as the primary owners of the assets, become more prominent.

Getting everyone going in the same direction is critical to the success of your plan. Everyone involved must share a vision of what life in the family and the operation of the business will be like longer term. The family needs to realize what this vision is and take ownership so that everyone understands that the plan is for the best of the family as a whole. Then the individual property owner must arrange his or her estate to reach the goals.

Setting Goals: Outline your Interests
Begin with yourself. What is it you hope to accomplish with the distribution of your property? Have you thought about what is important to you? Have you thought about what is important to co-owners of property, such as your spouse, or to recipients of property, such as your spouse and children? Do they know what you're trying to accomplish? Have you thought about how your distribution plans will affect you and your heirs?

Completing the questions and rating the common goals found in Worksheets 1 and 2 will be a start. Identify for yourself what is important



to you about your family and the ag operation, and in a plan. It is often too easy for task-oriented people like ranchers and farmers to not think about their goals, to discuss them and write them down, and to set priorities.
Treat these thoughts as preliminary until you have a complete knowledge about others' expectations as well as the likely taxes and fees due at your death given the transfer methods you'll likely use. The goals you set for yourself will be limited in the short run by the assets you currently have. Thus these can be the starting place for your family discussions. Chapter 7 presents useful techniques for achieving agreement on whatever specific goals you may develop and the form of a final plan.

Gauge Others' Interests: Discover Your Heirs' Expectations

Assuming you know what those interests are could lead you to make horrendous mistakes. For example, take the case of the farmer whose only reason for farming was to keep the business viable for his son, but the son was only farming to keep his father happy – they'd never discussed one of the most important things in their lives. An obvious mistake? Yes. But it happens far too often. Why is this such a common mistake? Because our family members are the people we oftentimes think we know best.

The second step in the process of exploration is to gather the rest of the family's goals. Ask your children what is important to them, if you are the initiator outlined in Chapter 3. With the transfer of an ag operation, ask them whether they want to continue the venture, or if they plan to sell it. Initiating a family-inclusive discussion about transferring the farm can be extraordinarily frustrating if nothing is known about what is important to each individual.

The goals will vary with any of dozens of variables, including the individual objective of each family member, the family's overall objectives, as well as differences in assets and liabilities, aptitudes and ages of survivors, number of children, and values that are important to the person making the estate plan.

Potential Goals

The most starkly differing goals often occur between property owners and the heirs apparent. Typically, these two groups are the parents and the children, or, more generally, the senior and younger generations. Goals change as people age, so that just as the older generation begins to slow down and is interested in consolidating financial resources in safe investments, the succeeding generation is often interested in expanding and adding new enterprises. The following are some examples of the various goals people have.

Goals: The Senior Generation

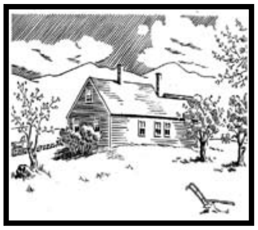
The senior generation, typically a husband and wife, are often thought to have the following goals:

1. Protect savings and investments so as to provide for financial security in later life
2. Provide for a surviving spouse
3. Keep the family business in the family and operating effectively
4. Minimize federal and state gift and inheritance taxes
5. Distribute property as desired and treat heirs fairly (though not necessarily equally)
6. To kick back and relax a little,
7. Tto share the burden of keeping the business going
8. Achieve peace of mind

Goals: The Younger Generation

On-farm heirs stereotypically desire

1. To reduce uncertainty about what is going to happen to Mom and Dad's property interests
2. To grow the family business and to increase personal sources of income
3. To minimize income and self employment/ Social Security taxes
4. To change the business to make it more



profitable
5. Share in the gift and transfer or family history and heirlooms,
6. To start acquiring an ownership interest in the family business, and
7. To have time to spend with the family.

Off-farm heirs may wish to:

1. Be engaged in the estate and transfer process (they don't want to feel excluded just because they happen to be off-farm heirs),
2. Receive a fair share of the estate, and
3. Receive a satisfactory dollar return on the inheritance.

Exercise: Gather information on what members of the family think is important. What transfer planning goals does each generation have? Ask family members to complete their own Worksheets 1 and 2, then share and discuss the results.

Objectives

Objectives are derived from a goal: they have the same intention as a goal, but are more specific, quantifiable and verifiable than the goal. For every goal that you've decided is worth achieving, some objectives should be developed. To develop objectives, keep in mind that objectives should be SMART:

Specific – Be clear about what you are going to achieve
Measurable – Quantify targets and benefits
Achievable – Have (or be able to gather) the resources to make the objective happen (men, money, machines, materials, minutes)
Realistic – the goal must be something toward which you are both *willing* and *able* to dedicate yourself to.
Timed – State when you will achieve the objective (within a month? By February 2010?)

Chapter 3 introduced a family of three (father, mother, and a son working on the ranch). After working through Worksheets 1 and 2 they might have developed the following goals and objectives.

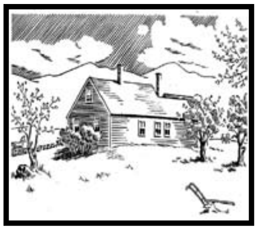
Goal: Increase involvement of son in operation.
Objective 1: Dad to transfer management of purchasing to son by end of this winter.
Objective 2: Dad to transfer ownership of haying equipment and management of the haying operation by next spring.
Objective 3: Hold family meeting do discuss the financial health of the ranch in spring and fall.

Goal: Prepare estate plan for each family member by 2008.
Objective 1: Mom and Dad to collect necessary financial records by the first of next year.
Objective 2: Son to collect necessary financial records by the first of next year.
Objective 3: Mom to contact attorney to meet with the family by the first of the year.
Objective 4: Hold meeting (at which a financial planner is present) to finalize goals before meeting with attorney.
Objective 5: Family to hold estate planning meeting the first Tuesday of every month to report on progress and refine goals/objectives.

Use Worksheet 3 to collect the family's joint goals and objectives. It may be useful to review the discussion techniques presented in Chapters 3 and 7.

Fairness

It's tempting to think, "They're my kids, and they should all get equal shares." With that attitude, passing on the ag operation as a viable entity will require jumping some tremendous hurdles. First, the business operator probably isn't going to be able to afford to buy out the off-farm heirs—principal and interest payments may be overwhelming, and the size of the operation may be insufficient to support a family. Second, joint ownership of the business by people who will certainly have different goals will make decision making difficult—don't force siblings



with different goals to work together. Finally, dividing the business assets equally does not reward the child that worked on the operation—not being fair.

The senior generation needs to define what is fair, then share that reasoning with the others involved.

Communication

Perhaps above all else communication is the key to keeping the business in the family. Different values, expectations, and ambitions of each individual can often lead to friction. These "people problems" can quickly become business and financial problems and ultimately make the transfer of the business impossible.

Everyone needs to understand the situation of the business, including the non-farming children and those who married into the family. Continuing talks around the dinner table and at get-togethers, where all relatives—not just those involved in the business—learn about the operation. Owners should also arrange an annual "family council" where kids as young as their early teens join older family members to learn the history of the business and how it makes money—and get a pep talk about possibly taking over someday. The framing approaches presented in Chapter 3 will be useful as dialogue continues.

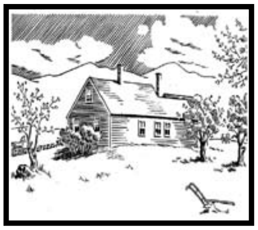
In most agricultural families the farm or ranch is the primary asset of the family. Because of the nature of agriculture and the financial circumstances of most families it is unlikely that the business can be bought as a whole by a single person. For this reason the senior generation may employ the gifting tool to transfer business assets during while the senior generation is alive. Without communication of this plan to siblings, hard feelings will easily result.

At this point you might consider involving a communications facilitator in discussions about the business. A facilitator may be able to provide the help your family needs build strong communications. The tools chapter provides contact for facilitators.

Pitfalls to Avoid

Verlyn De Wit points out a number of pitfalls to avoid.

- Giving children grossly unequal shares of the estate. While children may appear to get along very well, things tend to change when property is going to be distributed.
- Punishing financially successful children by decreasing their inheritance. Many children are driven to success simply to please their parents. Decreasing the inherited share of a successful child is a crushing blow to the over-achiever. Here is an ideal example of a situation where discovering expectations could lead to a much more desirable distribution plan. What if, for example, the financially successful heir who is CEO of a giant company would prefer that his or her share go to the sibling that had spent his or her life teaching elementary school students?
- Forcing children to own property together after your death, leaving the heirs to decide how to split the property.
- Requiring the off-farm heir to take their inheritance in the business as a long-term loan to the on-farm heir. Children don't do well in debtor/creditor relationships.
- Failing to communicate your plan to your children. Explaining the plan to all the children is especially important when children are treated differently to arrive at what the senior generation believes to be a fair and equitable resolution. It is best to avoid surprises.
- Planning late. A study sponsored by National Life of Vermont examined 749 family businesses that failed within four years of being transferred to the second generation. It found that over 97% of the inheritors blamed founders for being negligent in preparing for the transition,



or for having an inadequate estate plan. Some methods of equalizing inheritance to your children take many years to accomplish. Postponing your planning will reduce your options.

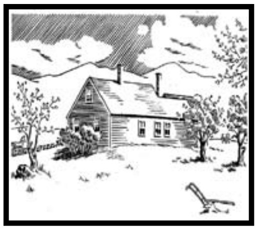
Another pitfall is avoid is *failing to plan*. There are plenty of estate owners that fail to plan altogether or have inadequate plans or plans they don't understand that won't accomplish their wishes.

Maintaining family goodwill by not surprising any family member can be accomplished by open family discussion of all plans. The senior generation should ake the opportunity to explain their thoughts and get input. Each person should clearly understand where he/she stands (even if the decision is not in his or her favor). Family meetings are becoming common for families who want to make decisions about their estate plan and in the process, share their values, hopes, and dreams. Information on family meetings can be found in Chapter 7.

Final Comment

Keep in mind that your objectives may require a certain level of assets. In some cases the objectives may not be achievable with the current resources of the estate. In the case that the estate's assets fall short, you will need to consider savings plans, investments or insurance policies that make up the difference, or revising your objectives. Chapter 5 contains information and worksheets designed to estimate the estate's current value.

Planning the transfer of an estate involves a lot of communication – trying to get the members of the family as a whole to understand what the wishes of estate owners – usually the senior generation – are. Discovering and fulfilling family interests is what estate planning is all about.



Resources

Best Intentions, Ensuring Your Estate Plan Delivers Both Wealth and Wisdom Colleen Barney and Victoria Collins (2002) Dearborn Publishing.

Managing the Multi-Generational Farm. Pat Davidson (1997) Canadian Farm Business Management Council, Agriculture and Agri-Food Canada. CFBMC Index 0591-1. 888-232-3262, www.farmcentre.com/

Planning the Late-career, Retirement-mode Years. Kenneth Thomas. (2003) Business Management for Farmers series. NCR610F. Midwest Plan Service. Iowa State University. 800-562-3618, www.extension.iastate.edu/store/.

"Some Do's and Don'ts for Successful Farm and Ranch Family Estate Transfers" Robert J. Fetsch (June 1999) *Journal of Extension* Volume 37, Number 3. www.joe.org/joe/1999june/iw2.html

"What Good Is It if We Don't Get Along?--or Planning for Family Harmony" Verlyn De Wit (2000) *Western Dairy Business* Reprinted in Agricultural Labor Management, available at www.cnr.berkeley.edu/ucce50/ag-labor/7article/article24.htm

Worksheet 1. Discovering Family Values

Prepare a list of your own values regarding the family and the business. To get started, reflect on the following.

1. What does this family mean to me?

2. What does this ag business mean to me?

3. What do I want from my life, my work, and my family?

Worksheet 2. Goals Assessment

Rate the goals of interest to you to form a starting point for discussions and planning, then compare answers with the other people involved in the planning process.

Degree of Importance

Low			High		Goals
____	____	____	____	1.	To provide for a young widow/widower and children.
____	____	____	____	2.	Provide security for surviving spouse.
____	____	____	____	3.	Relieve surviving spouse of estate management responsibilities.
____	____	____	____	4.	To provide for both spouses during retirement years.
____	____	____	____	5.	Provide security for an incapacitated family member.
____	____	____	____	6.	Provide management contingency plan for incapacitated business owner, e.g. with a revocable living trust.
____	____	____	____	7.	To maintain the business as an efficient and functioning unit.
____	____	____	____	8.	Assist beneficiaries, including in-laws, to get started in business.
____	____	____	____	9.	To provide liquidity to settle the estate taxes, transfer expenses and debts.
____	____	____	____	10.	Protect beneficiaries from mismanagement and from the claims of creditors and ex-spouses.
____	____	____	____	11.	Discourage certain types of conduct.
____	____	____	____	12.	Give incentives to beneficiaries to be productive members of society.
____	____	____	____	13.	Provide educational opportunities for beneficiaries.
____	____	____	____	14.	To treat all children equitably, not necessarily equally.
____	____	____	____	15.	To maximize total family satisfaction.
____	____	____	____	16.	To maximize the amount remaining for distribution after estate settlement costs.
____	____	____	____	17.	To minimize the cost of setting up the plan.
____	____	____	____	18.	Name guardians, conservators, or trustees of minor children and/or testamentary trusts.
____	____	____	____	19.	Name a personal representative for the estate.
____	____	____	____	20.	Transfer specific property to specific people.
____	____	____	____	21.	Make gifts to family members and others during lifetime.
____	____	____	____	22.	Reduce income taxes by disposing of income property during life.
____	____	____	____	23.	Provide for charitable bequests to favorite charities or organizations.
____	____	____	____	24.	Avoid probate or reduce probate costs.
____	____	____	____	25.	Protect the inheritance of children from a previous marriage.
____	____	____	____	26.	To provide for liquidity to pay bills at estate owners passing.
____	____	____	____	27.	Other ________________________________
____	____	____	____	28.	Other ________________________________
____	____	____	____	29.	Other ________________________________
____	____	____	____	30.	Other ________________________________

Worksheet 3. Setting Joint Goals and Objectives

Jointly develop goals for the operation and transfer of the business, and objectives that will achieve each goal. Long-term goals help provide direction in moving you toward your vision. With short-term business objectives, be much more specific. These objectives should be SMART: specific, measurable, achievable, realistic, and timed. The short-term objectives help accomplish the long-term business goals. Write your long-term goals below, and beneath each, list the supporting short term objectives.

Goal: ______________________________

The objectives to accomplish this goal: ______________________________

Goal: ______________________________

The objectives to accomplish this goal: ______________________________

Goal: ______________________________

The objectives to accomplish this goal: ______________________________

Goal: ______________________________

The objectives to accomplish this goal: ______________________________

Goal: ______________________________

The objectives to accomplish this goal: ______________________________