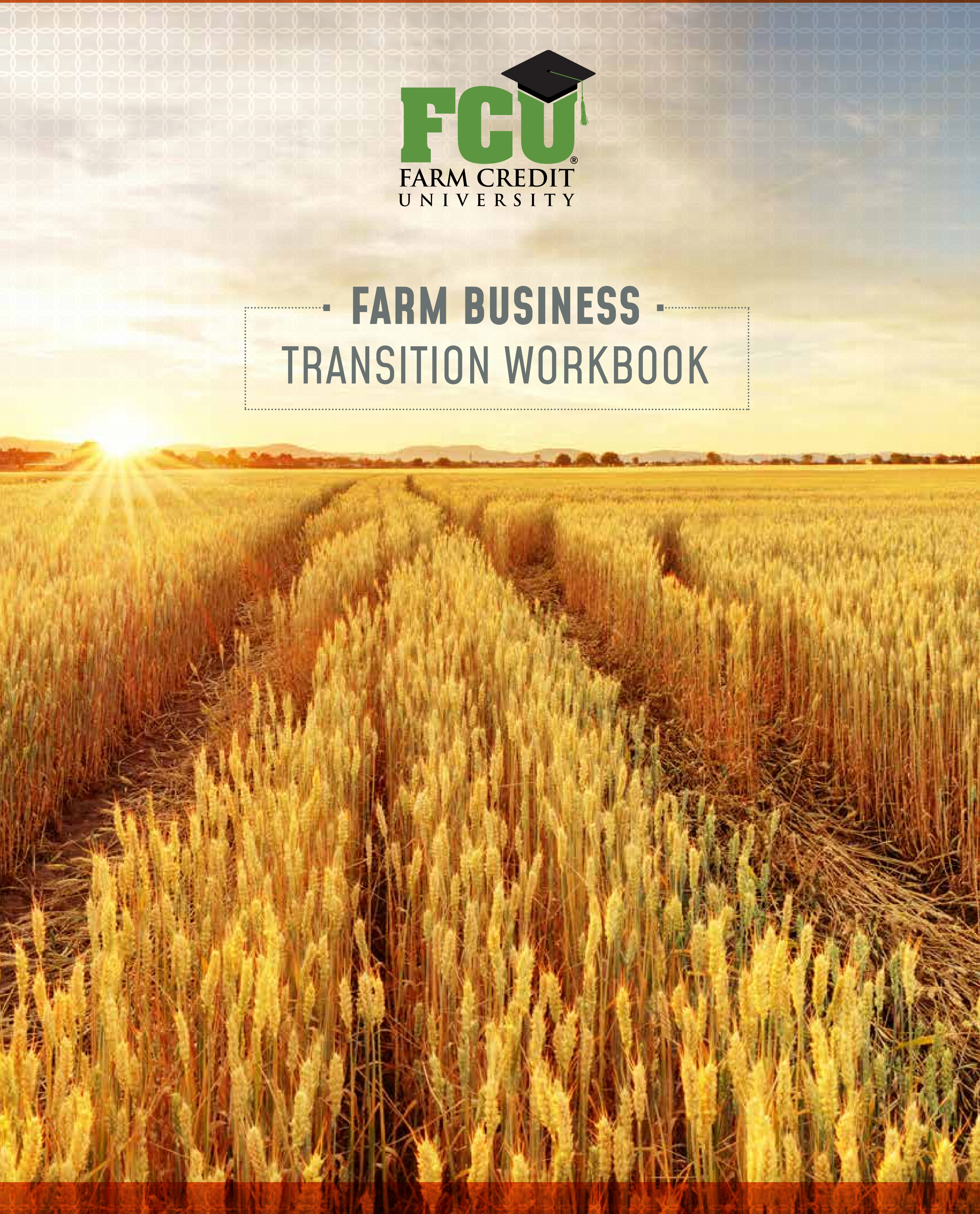
FARM CREDIT UNIVERSITY

FARM BUSINESS TRANSITION WORKBOOK



Business Transition Planning Workbook

Transition planning is the process of transferring the ownership and management responsibilities of a family farm or business so that it can succeed and thrive into the future. This process is typically overlooked because the day-to-day operations of the business take precedence over long-term planning. It can also be hampered by family relationships and a lack of communication among all the generations. But one thing is clear: Transition planning is very important in helping the business and family members achieve their goals for the future. You need to ask yourself a question:

What is more important – managing the day-to-day operations of your business or planning for the future of your family and business?

Families often tend to procrastinate on planning for the future because there are a lot of moving parts involved, and choosing a starting point can be difficult. This workbook is intended to give you a structure for starting to think about your goals for your family and operation. Hopefully, it will help start the conversation about transition planning among all of the parties involved – family and non-family. And, if nothing else, it will help put some of your thoughts in writing to kick-start the process.

This workbook does not take the place of working with professionals (attorneys, financial professionals, accountants, etc.) in the transition planning process. Rather, it is intended to help you gather your thoughts and necessary information so that you can work more effectively with professionals.

Many of the worksheets should be completed individually by different members of the family or business. You may want to make copies of some of the worksheets so that each individual can complete it on their own.

As you complete the worksheets in this workbook please remember that it will contain a significant amount of sensitive information. Make sure to store this workbook in a secure location, such as a fireproof safe or safe deposit box for confidentiality. Also, be sure that trusted individuals in your family and/or business know the location of this workbook and have access to it in the event that something happens to you.

The Farm Credit University team wishes to thank Dr. Alex White, Virginia Tech, for authoring and compiling this material and the Farm Credit staff who helped edit and review the content.

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COMPLETED

When you finish each task, place a check mark in the “Completed”column so you can see your progress.

TRANSITION PLANNING TIMELINE

Transition planning and the timeline for accomplishing all of the tasks involved will be different for everyone. Developing a timeline that makes sense for your operation may help you determine what needs to be accomplished first and in what order each task should be tackled.

The Transition Planning Timeline worksheet lists several of the major tasks involved. For each task:

- Rank the priority of the task for your family and business. Use descriptors such as “High, Medium, Low” or a number scale (1 = low priority, 10 = high priority).
- List the proposed date that you want to have the task completed.
- List the actual date that you complete the task.
- Note any further actions that might need to be taken to complete or revise the task. These notes might include items such as:
    - Contacted the attorney, waiting to hear back.
    - “John” is responsible for finishing the crop aspect of the resource inventory.
    - Opened an IRA, set up monthly contributions.

Transition Planning Timeline

	Priority For Your Business	Proposed Completion Date	Actual Completion Date	Further Action Required?
Establish, Discuss & Prioritize Family/Business Goals				
Schedule Your Initial/Next Family Meeting				
Schedule Your Initial/Next Business Meeting				
Identify Professionals for your Transition Team				
Meet with Attorney				
Discuss/Revise Legal Form of Organization				
Discuss/Revise Your Estate Plan				
Revise Existing Documents				
Establish Durable Power of Attorneys				
Establish Advance Medical Directives				
Establish Wills				
Discuss/Establish Trusts, Gifting Strategy, etc.				
Meet with Accountant				
Revise Recordkeeping System				
Establish Enterprise Accounting				
Generate a Monthly Cash Flow Budget				
Discuss Your Income Tax Management				
Discuss Your Deferred Income Tax Strategy				
Meet with Lender/Banker				
Discuss Loan Account Details				
Discuss Deposit/Savings Accounts, etc.				
Discuss Access to Safe Deposit Box				

	Priority For Your Business	Proposed Completion Date	Actual Completion Date	Further Action Required?
Meet with Insurance Agent(s)				
Discuss Health Insurance Needs				
Discuss Life Insurance Needs				
Discuss Disability Insurance Needs				
Discuss Long Term Care Insurance Needs				
Discuss Property & Liability Insurance Needs				
Meet with Financial Advisor(s)				
Discuss Retirement Plan				
Discuss Investment Plan				
Complete the Resource Inventory Worksheet				
Complete the Resource Inventory Scorecard				
Develop/Revise Your Family Living Budget				
Complete/Revise the Location of Key Documents Worksheet				
Complete the Key Suppliers Worksheet				
Develop an Operations Calendar				
Develop Job Responsibilities for Each Party				
Calculate & Evaluate Your Key Financial Ratios				
Develop a Written Business Plan				
Develop your Written Transition Plan				
Begin Transfer of Ownership to Other Parties				
Begin Transfer of Management Responsibility to Other Parties				

LOCATION OF KEY DOCUMENTS & INFORMATION

Information and records are as crucial in the transition planning process as they are in the day-to-day management of a business. Ownership records, deeds, contracts and financial records provide important information to the owners and managers.

However, when the principal operator becomes ill or dies, family members may not have access to important records. Many times, survivors don't know where the records are stored, don't have account passwords or safe combinations, or simply don't know where the keys to the safe deposit box are kept. You can ease the burden on your family and business partners by providing this information now.

To avoid disruption and frustration, develop a list with the location of each key document and how to access it. For each of the items on this worksheet provide helpful information, such as:

- The name of the institution (bank, insurance agency, etc.).
- Contact information.
- Account or policy numbers for your bank accounts, insurance policies, etc. (list at least the last four digits for security reasons).
- Important file names or locations of electronic or physical documents.
- Passwords for computer programs.
- Where the keys are located.
- Who has access to this information (joint account holders, attorney-in-fact, etc.).

Update this list on a regular basis or as key life events occur.

Store this worksheet in a **secure location** to protect any sensitive information. Be sure to let trusted members of your family or business partners know the location of this worksheet. Possibilities include:

- Your attorney, trustee, or the attorney-in-fact for your power of attorney.
- A safe deposit box (be sure your family or partners know the location). Also, you might consider giving access to the box to someone you trust implicitly.
- An in-home fire-resistant safe.
- Digitally, in a secure location/app in the cloud.

Location of Key Documents & Information

Name ______	Physical Location	Helpful Information
Birth Certificates		
Social Security Cards		
Passports		
Marriage License/Divorce Papers		
Advance Medical Directive/Living Will		
Power of Attorney		
Deeds/Titles for Personal Assets		
Safe Deposit Box (& keys)		
Insurance Policies:		
Medical/Health		
Disability		
Liability/General Farm		
Life		
Automobile		
Homeowners/Renters		
Long Term Care		

Debt/Credit Records		
Receipts		
Investment Records		
Retirement Plan Documents		
Income Tax Records		
Estate Planning Records:		
Last Will & Testament		
Cemetery Deed/Location		
Pre-paid Funeral Documents		
Letter of Instruction		
List of Final Wishes, Intended Bequests		
Trust Documentation		
Articles of Incorporation/Bylaws		
Business Licenses		
Deeds/Titles for Business Assets		
Contracts		
Location of Business Meeting Minutes		
Business Plan		
Business Continuity Plan (in case of disaster)		
Transition Plan		

KEY SUPPLIERS FOR THE BUSINESS & FAMILY

All of the key personnel in the business should know the main suppliers for the farm or business. This makes it easier to keep operations running smoothly when the primary decision maker is not available, whether they are traveling, ill or deceased. You will make things significantly easier on your family and business partners if you have a consolidated list of your key suppliers and their contact information.

From a family standpoint, you might want to develop a similar list. Develop a list of your doctors and regular pharmacy, tradespersons (plumbers, electricians, HVAC, etc.), financial/insurance professionals, and utilities companies (electricity, phone, internet, and water/waste).

Your list of suppliers of goods and services should include:

- Name of the business.
- Your primary contact person's name and contact information.
- Any notes that will help maintain consistency of service, such as account numbers and types of accounts.

Key Suppliers for the Business & Family

Type	Business Name	Contact Person	Phone	Email	Address	Notes
Supplies						
Chemicals						
Feed						
Fertilizer						
Fuel						
Utilities						
Other						
Other						
Financial						
Accountant						
Appraisal						
Bank						
Financial Planner						
Investments						
Lender:						
Lender:						
Tax Preparer						
Other						
Other						
Insurance						
Crop/Livestock						
Health/Medical						
Key Person						
Liability						
Life						
Other						
Other						
Services						
Breeding						
Computer/Tech						
Crop Consultant						
Market/Sales						
Marketing						
Nutrient Management						
Price Protection						
Processing						
Repairs						
Security						
Storage						
Transportation						
Veterinarian						
Waste Disposal						
Other						
Other						

LEGAL STRUCTURE OF YOUR BUSINESS

Legal structure refers to the form of legal organization under which your farm or business operates. The primary forms of legal organization in the United States are:

- Sole proprietorship.
- Partnerships.
    - General partnership.
    - Limited partnership.
    - Family limited partnerships.
- Corporations.
    - S-corporations (aka Subchapter S).
    - C-corporations (aka Subchapter C).
- Limited liability companies (LLCs).

Your chosen form of legal organization has significant impacts on transition planning. The major impacts include:

- Your ability to transfer assets to other parties.
- Taxation of the farm or business profits.
- The amount of liability the owners face.

Your form of legal organization should allow you to reach your goals in the most effective manner. **Consult with both an attorney and an accountant to determine which form of organization is most appropriate for your operation.**

Many farms and businesses have established multiple forms of legal ownership for their operations. This can help with record keeping, management control, and to some extent the liability protection for the owners. It is not uncommon for a farm to have two or more forms of organization, with different parties owning each form. As an example, a farm family might have the following forms:

- An LLC to own the farmland and facilities.
- An S-corporation to own the machinery and/or livestock.
- A C-corporation for the transportation aspects of the farm.

A situation like this can get very confusing during transition planning. You must have a good knowledge of the forms of legal organization of your business to complete the transition planning process. The Legal Structure of Your Business worksheet will help you sort out what types of organization you have, as well as the ownership percentages. You should list any notes that will clarify the legal organization of each entity. These might include:

- Where the legal documents (articles of incorporation, bylaws, etc.) are held.
- Notes on who can/cannot be an owner.
- Informal arrangements for transferring ownership from one party to another.
- Location of any files of correspondence between parties.

Legal Structure of Your Business(es)

	Name	Legal Organization*	Owners	Ownership %**
Entity 1:				
Notes:				
Entity 2:				
Notes:				
Entity 3:				
Notes:				

*Legal Organization: Sole Proprietorship, Partnership, Limited Partnership, S-Corporation, C- Corporation, LLC, etc.

**Ownership % should add to 100% for each entity.

YOUR TRANSITION PLANNING ADVISORY TEAM

Transition planning involves a wide range of topics and subject matter. You should consider establishing an advisory team to help you develop and revise your transition plan. Your advisors will help you stay current on regulations and policies. They will help you avoid common mistakes families and business owners make in transition planning, estate planning and retirement planning. Most importantly, they will work together to make sure that all of your plans and actions are moving you toward your desired goals.

For this worksheet, list all of the parties that you would like to have on your transition planning advisory team. List their names, contact information, and their status as to whether they have agreed to be a part of your advisory team. You might also list other information that is relevant to your team: Will they charge you an hourly fee or a retainer fee? What times are best for them to meet? Are there other professionals with whom they already have a strong working relationship, etc.?

Try to meet with your advisory team as a group toward the beginning of your transition planning process. A group meeting enables all parties to know your goals and values, and it helps ensure that everyone is on the same page. Too often, families will make decisions based strictly on the advice of only one professional, such as a lawyer or accountant. While that one professional may be well-versed in their particular field, they may not be as familiar with the other aspects of the decision. An example would be making a decision on your form of legal organization by consulting an attorney. The attorney should know all of the legal ramifications, but not all of the taxation or insurance ramifications. A group meeting will enable you to make more well-rounded decisions.

Use an outside facilitator. Here are some key things the facilitator will do to keep the process moving:

- Schedules meetings, sets agenda, provides minutes of meetings
- Summarizes the parts and pieces completed by other team members.
- Compiles the final transition plan document(s)
- Does all the things the farm family doesn't have time to do while they are managing the day-to-day operations.

Your Transition Planning Advisory Team

	Name	Phone/Email	Status*
Business Partners			
Attorney			
Accountant			
Lender/Banker			
Insurance Agent			
Consultants			
Peer Business Managers/Owners			
Facilitator			
Family Members			
Other			

*Status = Have not contacted; Agreed to serve; Agreed with conditions (retainer fee, hourly fee, etc.)

RESOURCE INVENTORY

One of the main steps in transition planning is facilitating the transfer of ownership of the farm or business assets. This will require you to know:

- An inventory of all of the farm/business resources (assets), including quantity owned and its current market value.
- Who owns each resource.
- The tax basis of each resource.

There are several reasons that every farm or business should have a resource inventory:

- It shows all of the resources or assets that are owned or used by the operation. This can be extremely valuable when a new manager/owner enters the operation. It is also helpful when someone leaves the operation.
- It clarifies who owns each asset and/or the percentage of ownership. This is crucial in developing a plan to transfer ownership of the assets.
- You can develop a more detailed and accurate balance sheet.
- You can easily incorporate accrual adjustments in your financial statements by doing a resource inventory at the beginning of each year.
- It provides valuable information when preparing your annual income taxes.
- It helps you sort out changes that need to be made in the case of disability or death of a family member.
- It forces you to take time to examine the condition of your resources on a regular basis. This is akin to going to your physician for an annual checkup – it can alert you to possible problems before it's too late.

Instructions:

Use the following worksheet to list all of the assets or resources that are used in the operation of your farm or business. For each resource, list:

- Amount on hand. List the number of tons, acres, head, etc. For buildings and facilities, you can list the capacity (square feet, tons, bushels, etc.).
- Units of measurement (dollars, bushels, acres, etc.).
- Current Market value – either per-unit or total value. When in doubt, use a conservative value. For land and real estate, use an agricultural use value rather than a development value. Alternatives for valuing assets:
    - Appraisals
    - Buy/Sell agreement
    - Sales history
- Tax basis (purchase price less Accumulated Tax Depreciation) of each resource. Consult the tax return depreciation schedule.
- Who owns the resource and/or the percentages of ownership. This is especially important for partnerships and in businesses where each owner has contributed assets to the business.
- Notes about each resource that might be important to the management of the farm or notes that might be useful in the transition planning process. An example might be a note on how the ownership of each calf crop will be split between partners.

Farm Resource Inventory

Date: ____________________

Resource	Amount on Hand or Capacity	Units	Market Value/Unit	Total Value	Tax Basis	Owner (%)	Notes
Monetary Assets							
Cash/Checking - Farm Acct							
Savings - Farm Acct.							
Marketable Securities							
Accounts Receivable							
Feedstuffs on Hand							
Crops Held for Sale							
Livestock Held for Sale							
Other Current Resources							
Insurance							
Supplies							
Cash Inv. in Growing Crops							
Rented Land (Prepaid Rent)							
Leased Equipment							
Breeding Livestock							

Resource	Amount on Hand or Capacity	Units	Value/Unit	Total Value	Tax Basis	Owner (%)	Notes
Machinery & Equipment							
Real Estate							
Cropland							
Pasture land							
Timber/Other							
Buildings & Facilities							
Improvements							
Other Assets							
Retirement Assets							
Equity in Other Entities							
Loans							
Operating Loan Balance							
Credit Card Balances							
Accounts Payable							
Machinery Loans							
Livestock Loans							
Real Estate Loans							

RESOURCE INVENTORY SCORECARD

Transition planning involves developing plans for the future success of your family, farm and/or business. Before you start to develop any plans, you should look at your current condition. This will help you identify any factors that are limiting your growth or areas that might become problems in the future.

Take an objective look at your farm or business and the surrounding community. The Resource Inventory Scorecard lists key factors that will impact your business and asks you to rate the current state of each factor. Each manager and owner should complete this scorecard independently. We also recommend that other key personnel complete the scorecard to help you get a balanced view of your current situation.

The Resource Inventory Scorecard is a quick and simple method of rating the current condition of your operation and the surrounding community. Rank each of the resources listed on the scorecard from 1 to 5 (1 = Poor, 5 = Strong). Feel free to rank the resources between the numbers (i.e., 3.75) if that helps you.

After each person has ranked the current condition of each resource, compare everyone's rankings. This will give you information on which resources are in need of repair or replacement, as well as which resources are not readily available in your area. This information will help you create a stronger plan for the future of the operation.

NOTE: You may want to hire an impartial party to do an independent assessment of your resources. This can provide an unbiased evaluation that will help all generations plan for the transition.

Resource Inventory Scorecard

Natural Resources:	**1 (Poor)**				**5 (Strong)**
Water availability	1	2	3	4	5
Water quality	1	2	3	4	5
Soil quality	1	2	3	4	5
Land availability	1	2	3	4	5
Hired labor availability	1	2	3	4	5
Other: ____________________	1	2	3	4	5
Totals: sum of each column	___	___	___	___	___
Average Score = Sum of Totals ÷ 6	____________				
Comments:					

On-Farm Facilities/Equipment:	**1 (Poor)**				**5 (Strong)**
Current condition:					
Livestock	1	2	3	4	5
Machinery and equipment	1	2	3	4	5
Buildings and facilities	1	2	3	4	5
Capacity:					
Storage	1	2	3	4	5
Livestock facilities	1	2	3	4	5
Machinery (planting and harvesting)	1	2	3	4	5
Layout/Design	1	2	3	4	5
Ability to expand	1	2	3	4	5
Totals: sum of each column	___	___	___	___	___
Average Score = Sum of Totals ÷ 8	____________				
Comments:					

Local Infrastructure:

	1 (Poor)			5 (Strong)	
Availability of:					
Supplies (fertilizer, feeds, etc.)	1	2	3	4	5
Transportation services	1	2	3	4	5
Processing facilities	1	2	3	4	5
Financing/lenders	1	2	3	4	5
Machinery sales and service	1	2	3	4	5
Road system	1	2	3	4	5
Reliable utilities services	1	2	3	4	5
Reliable internet services	1	2	3	4	5
Technology services	1	2	3	4	5
Hospitals and medical care	1	2	3	4	5
School systems	1	2	3	4	5
Totals: sum of each column	____	____	____	____	____
Average Score = Sum of Totals ÷ 11	____________				

Comments:

Markets:

	1 (Poor)			5 (Strong)	
Stability of markets	1	2	3	4	5
Access to markets	1	2	3	4	5
Control over prices received	1	2	3	4	5
Potential for new markets	1	2	3	4	5
Industry competitiveness (US and global)	1	2	3	4	5
Totals: sum of each column	____	____	____	____	____
Average Score = Sum of Totals ÷ 5	____________				

Comments:

Financial Condition (See the Financial Ratios Worksheet):

	1 (Poor)			5 (Strong)	
Liquidity	1	2	3	4	5
Solvency	1	2	3	4	5
Repayment Capacity	1	2	3	4	5
Profitability	1	2	3	4	5
Financial Efficiency	1	2	3	4	5
Totals: sum of each column	___	___	___	___	___
Average Score = Sum of Totals ÷ 5	________				

Comments:

Other Factors:

	1 (Poor)			5 (Strong)	
Written goals and mission/vision	1	2	3	4	5
Written business plan	1	2	3	4	5
Written transition plan	1	2	3	4	5
Family living budget	1	2	3	4	5
Estate plan	1	2	3	4	5
Retirement plan	1	2	3	4	5
Risk management plan	1	2	3	4	5
Marketing plan	1	2	3	4	5
Disaster/Emergency plan	1	2	3	4	5
Local zoning policies	1	2	3	4	5
Government support of agriculture	1	2	3	4	5
Community support of agriculture	1	2	3	4	5
Urban pressure	1	2	3	4	5
Availability of non-business income	1	2	3	4	5
Cost of living	1	2	3	4	5
Totals: sum of each column	___	___	___	___	___
Average Score = Sum of Totals ÷ 15	________				

Comments:

Resource Inventory Scorecard

Labor	**1 (Poor)**			**5 (Strong)**	
Operator: ________________________					
Production management skills	1	2	3	4	5
Financial management skills	1	2	3	4	5
Marketing management skills	1	2	3	4	5
Personnel/Labor management skills	1	2	3	4	5
Overall business management skills	1	2	3	4	5
Organization skills	1	2	3	4	5
Planning	1	2	3	4	5
Scheduling	1	2	3	4	5
Execution	1	2	3	4	5
Monitoring and Benchmarking	1	2	3	4	5
Leadership ability	1	2	3	4	5
Creativity	1	2	3	4	5
Innovation	1	2	3	4	5
Decision-making ability	1	2	3	4	5
Ability to listen	1	2	3	4	5
Problem-solving ability	1	2	3	4	5
Work ethic	1	2	3	4	5
Honesty	1	2	3	4	5
Trustworthiness	1	2	3	4	5
Totals: sum of each column	____	____	____	____	____
Average Score = Sum of Totals ÷ 19	____________				

Suggestions for improvement:

THE IMPORTANCE OF GOALS

There's an old saying: "If you don't know where you are going, any road will get you there." In other words, if you don't have specific goals for what you want to accomplish, you really don't have any basis for making management decisions. Knowing what you want to accomplish (your goals) will simplify your decision-making process. It gives you a direction; it helps you eliminate possible actions because they won't move you toward your goals; and it forces you to think about what is truly important to you.

Goals help clarify:

- What you want to do.
- Why you want to do it.
- When you want to do it.
- How you plan to do it.
- Who is responsible for doing it.

Goals also improve communication with your family and business partners, as well as outside stakeholders, such as lenders. When you share your goals with them, they can start to understand why you are doing the things you do. It also gives your family and partners the opportunity to talk with you about their goals. You might find that they have the same goals as you, in which case the transition planning process will be a lot easier. More often, you might find that their goals are significantly different from yours. In this case, you will need to have honest, sincere discussions about the future of your family and your business. Each party will need to understand the importance of compromising on certain goals to help the family and business succeed over the long term.

The following worksheets are intended to help you think about your primary goals for yourself, your family and your business. Read through the various goals on each worksheet and **highlight at least your three most important goals** for your family, your business and the business transition process. The list is not exhaustive – feel free to write in any additional goals in the "Other" lines.

IMPORTANT: Have everyone in your family and all of the key personnel of your business complete these worksheets individually. Then, schedule a meeting to discuss the results. Have an open conversation about everyone's goals to see where people agree about their goals for the future. More importantly, identify areas where the ranking of the goals is markedly different; this will help you identify and minimize any potential areas for disagreement down the road.

Many family businesses are not successful in transitioning to the next generation, and one of the main reasons is the goal conflict between the parties involved. Talk about your goals!

PRIORITIZING YOUR YOUR FAMILY GOALS

Rank the following goals as Low, Medium or High Priority for your family – the farther to the right of the column, the higher the priority. Mark your **three highest priority goals** for your family with a star to the right of the High Column.

Family Goals	Low	Medium	High
Improve the family's lifestyle (new furniture, new car, etc.)			
Plan/save for a family vacation			
Add to the family (children, adoption, pets)			
Improve family health (nutrition, exercise, gym, spiritual, etc.)			
Plan/save for home renovation/purchase			
Develop a family living budget			
Build the family emergency fund			
Establish a regular savings program			
Pay down credit card debt			
Pay down consumer debt (auto, student)			
Pay down housing debt (PITI)			
Increase contributions to church/charity			
Increase your taxable investments			
Adequate health/disability insurance coverage			
Adequate liability insurance coverage			
Adequate life insurance coverage			
Adequate auto/homeowners insurance coverage			
Develop/update your estate plan (POA, AMD, will, etc.)			
Increase ownership share of family business			
Check/improve your credit score			
Meet periodically with financial advisors			
Prepare for education for children (K-12, college, etc.)			
Invest for your retirement			
Other: ______________________			
Other: ______________________			

PRIORITIZING YOUR BUSINESS GOALS

Rank the following goals as Low, Medium or High Priority for your business – the farther to the right of the column, the higher the priority. Mark your **three highest priority goals** for your business with a star to the right of the High column.

Business Goals	Low	Medium	High
Develop a comprehensive business plan			
Develop and implement business goals			
Expand/downsize the business			
Add/remove business partner			
Upgrade facilities/machinery			
Add/remove enterprises to/from the business			
Build/reduce inventories (feeds, livestock, etc.)			
Develop a usable recordkeeping system			
Build working capital			
Improve repayment ability of the business			
Pay down business term debt			
Pay down business operating debt			
Develop a cash flow budget			
Improve profitability			
Improve financial efficiency			
Improve the income tax management plan			
Develop a business transition plan			
Balance between business and family/personal life			
Supplement the business with off-farm income			
Invest a percentage of the business profits in non-farm assets (CDs, stocks, bonds, etc.)			
Incorporate a retirement plan into the business			
Obtain adequate liability insurance coverage			
Use life insurance to protect from death of a business partner			
Develop a risk management plan			
Complete a yearly financial analysis of key financial indicators (see Financial Ratios worksheet)			
Other: ______________________________			
Other: ______________________________			

PRIORITIZING YOUR BUSINESS TRANSITION GOALS

Rank the following goals as Low, Medium or High Priority for your business transition – the farther to the right of the column, the higher the priority. Mark your **three highest priority goals** for your transition with a star to the right of the High column.

Business Transition Goals	Low	Medium	High
Scale back/retire from management			
Increase your role in managing the business			
Expand the business			
Downsize the business			
Add or remove owners			
Upgrade facilities/machinery			
Add/remove enterprises to/from the business			
Develop a written transition plan within 1-2 years			
Assemble a transition planning advisory team			
Discuss your estate plans with family and partners			
Discuss your transition plan with family and partners			
Develop a list of job responsibilities or job descriptions for each owner and employee			
Maintain ownership of the business assets			
Mentor the incoming employees, managers and/or owners			
Incorporate a retirement plan into the business			
Develop a risk management plan			
Change the legal organization of the business to a different form (LLC, C-corp, S-corp, etc.)			
Hold regular business planning and transition planning meetings with key personnel			
Complete a 5-year future financial projection trend of key financial indicators that include the transition changes			
Determine the detailed financial outcomes of the transition • Senior Generation • Next Generation			
Other: ______________________			
Other: ______________________			
Other: ______________________			

BRINGING YOUR GOALS TO LIFE

Choose one of the high-priority goals you identified for your family, business and transition on the Prioritizing Goals Worksheet. Make that main goal SMART by tailoring it to your situation.

Make it Specific
The more specific you can make your goal, the better. Your goal should state WHAT you want to accomplish and HOW you want to accomplish it. For example, consider a goal such as "I want to retire from the business within five years." This goal says WHAT you want to do, but it doesn't specify HOW you want to accomplish it. You can "SMARTen" your goal by saying "I want to train/mentor my child to manage the finances of the business so that I can retire within five years."

Make it Measurable
State your goal in a way that you can measure your progress. Many goals can be measured by dollars or months or acres; but some goals may be a little harder to measure. For the above goal, it might seem hard to measure how you train/mentor your child. One possible option is to develop a list of financial tasks (developing a balance sheet and income statement, breakeven analysis) that your child should know to be competent in managing the financial aspects of the business.

Make it Achievable
The only thing worse than not setting goals is setting goals that you can't achieve. You feel defeated or frustrated when you don't reach that goal; many times this causes you to quit setting goals completely. When in doubt, start with an easier goal that you know you can achieve to build up some confidence in yourself. Then – slowly, over time – challenge yourself by setting more difficult goals.

Make it Rewarding
Try to set goals that will make your life better. This will be an incentive to make that goal come to life! Put some thought into how each goal will be rewarding for you, your family, or your business. Treat yourself to a reward once you accomplish that goal. There is nothing like a little positive reinforcement to help you achieve other goals.

Set a Timeframe
You will be more effective if you set a timeframe for each goal. The timeframe keeps you on task. We tend to underestimate the time it will take to accomplish most tasks. As a general rule, you might want to increase your timeframe by 25%.

Once you have stated your primary goal, set a couple of "feeder" intermediate and short-term goals that will help move you toward your primary goal. There isn't a set definition for intermediate and short-term goals in terms of number of years. Keep it simple – your short-term goals should help you accomplish your intermediate goals; your intermediate goals should help you accomplish your primary (long-term) goals. All of these goals should be moving you in the same direction.

Then, repeat this process for your other two primary goals.

After you have defined your three (or more) primary goals, ask yourself the following questions:

- If you had to sacrifice one of your business goals to be able to achieve your family goals, which **Business Goal** would you sacrifice? What changes to your business will be necessary to make this tradeoff work?
- If you had to sacrifice one of your family goals to be able to achieve your business goals, which **Family Goal** would you sacrifice? What changes to your family life will be necessary to make this tradeoff work?

Bringing Your Primary Goals to Life #1

Primary Goal (Specific)	How To Measure	Deadline	Who is Responsible	How To Reward Yourself	Status (in progress, completed)
Primary Goal					
Supporting Goals:					
Intermediate Goal					
Short-Term Goal					
Intermediate Goal					
Short-Term Goal					
Short-Term Goal					

Bringing Your Primary Goals to Life #2

Primary Goal (Specific)	How To Measure	Deadline	Who is Responsible	How To Reward Yourself	Status (in progress, completed)
Primary Goal					
Supporting Goals:					
Intermediate Goal					
Short-Term Goal					
Intermediate Goal					
Short-Term Goal					
Short-Term Goal					

Bringing Your Primary Goals to Life #3

Primary Goal (Specific)	How To Measure	Deadline	Who is Responsible	How To Reward Yourself	Status (in progress, completed)
Primary Goal					
Supporting Goals:					
Intermediate Goal					
Short-Term Goal					
Intermediate Goal					
Short-Term Goal					
Short-Term Goal					

OPERATIONS CALENDAR

Many managers have an operations plan in their head, but they fail to share the details of this plan with others, especially the younger generation. This is often the case in family farms and businesses. If something were to happen to that manager, would anyone else in the family or business know the schedule of operations for the rest of the year?

You can avoid putting your business in this situation by having a written operations calendar. An operations calendar shows what needs to be done and when it should be done. This will help you plan the operations for your entire business, including production, marketing, financing and administrative tasks. Further, this will help you develop a monthly cash flow budget for your business.

An operations calendar will also help you teach or mentor the younger generations. The calendar will help them see the major decisions that need to be made by the manager. It will help them see how problems that arise in one area of the business can impact other areas of the business over time.

Your operations calendar will be a work in progress. It will be difficult to pinpoint when actions are to be accomplished, but you can start with your best estimates. The attached Operations Calendar will serve as a starting point if you do not already have a written calendar for your business. For each row of the calendar, indicate the major tasks that need to be accomplished in the appropriate month. Once you have the major tasks on the calendar you can start fine-tuning your calendar by adding the supporting tasks that are necessary to accomplish the major tasks.

You might consider enlarging this operations calendar and laminating it. This will allow more space so that you can add more detail to your calendar. It will also allow you to easily modify your calendar. Another possibility is having a large whiteboard or chalkboard that is dedicated as your operations calendar.

Operations Calendar

Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Crop Production												
Livestock Production												
Marketing												
Financing												
Strategic Planning												
Overhead & Admin.												

ORGANIZATIONAL CHART AND JOB RESPONSIBILITIES

It is important for everyone to know their position and responsibilities in the business. Members of each generation need to know where they fit in, instead of leaving it to be assumed.

An Organizational Chart is a diagram that shows the structure of the business, including the relationships between positions or jobs. Draw a current Organizational Chart for your business in the first box on the next page. Create a block for each member of the business that includes their name and role. Organize and connect the blocks to represent the structure of the business. Then, draw another Organizational Chart in the second box that depicts the structure of your business post-transition.

There are several reasons that everyone in your business, especially a family business, should have written job responsibilities. Here are the main reasons:

- It reduces conflicts and "turf battles" by letting everyone know who is responsible for specific tasks.
- In times of illness or death of an employee, written job responsibilities help the remaining workers know about tasks accomplished by that employee. It helps keep important tasks from falling through the cracks.
- Written job responsibilities help the manager be sure that all tasks are assigned to the appropriate employee. This will also help the manager identify ways to make the labor assignments more productive or more efficient.
- They will help the manager define the job responsibilities of incoming workers in the event of the loss of an employee or during an expansion.

It will be impractical to list everything that you do in your day-to-day job. The Job Responsibilities worksheet is intended to identify the key responsibilities in your job; the activities that must be accomplished in the event of your absence. For each main aspect of your job, please provide a concise description of your responsibilities so that other employees will know what needs to be done. Also, list anyone with whom you share responsibility for a given task as well as who is the backup for you for that task. This will help create smoother operations when you are not available. For example, as a best practice, at least two people should be aware of the financial and technological details of the business.

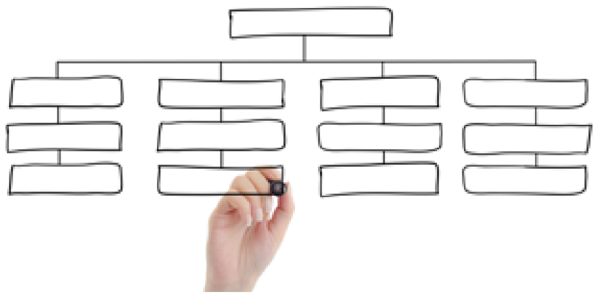
NOTE: All key personnel (family and business) should complete this worksheet individually. This allows them to write down the activities they do on a regular basis.

The business manager can use these worksheets to identify potential areas where labor efficiency can be improved by reallocating responsibilities.

ORGANIZATIONAL CHART

Draw a current Organizational Chart for your business in the box below that describes the business structure and relationships between job positions. Then, draw another chart to depict how your business will be structured post-transition.

SAMPLE ORGANIZATIONAL CHART



CURRENT ORGANIZATIONAL CHART

POST-TRANSITION ORGANIZATIONAL CHART

Job Responsibilities

Person:____________________________________ Position Title:__________________________________

Develop a general list of your primary job responsibilities	Shared Responsibility With:	Who is your Backup?

Production or Operations:

Labor Management:

Marketing:

Financial:

Risk Management:

Planning & Administrative:

SAMPLE BUSINESS TRANSITION MEETING AGENDA

Having regular business meetings and keeping minutes of each meeting will help you:

- Minimize conflict by having a written record of discussions and actions.
- Identify the accountability of those responsible for achieving these actions.
- Reduce the possibility of forgetting why you decided to take or not take certain actions.
- Protect any liability protection you might have under your legal form of ownership (LLC, C-corp, S-corp, etc.).

Use this sample agenda as a starting point for your business meetings. Revise it as needed to meet your objectives.

Keep the completed agenda and minutes on record so they are readily available, and bring these records to every business meeting.

Don't try to solve all of your business transition issues at one meeting. Try to address one or two of the main issues at a time. Here is a list of key transition planning issues that you should discuss in your meetings:

- Mission and core values of the business.
- Long-term goals for:
    - Family.
    - Business.
    - Business Transition.
- Developing a list of job responsibilities for each owner and key employee.
- Legal structure for the business.
- Process for adding and/or removing owners and/or managers.
- Timeframe for the transition.
- Advisors or consultants to include in the planning process.
- Estate planning as related to the business and family.
- Retirement planning.

Sample Agenda for Business Meetings

Date: ______________________

In attendance: ____

____

Not in attendance: ____

____

Main items to address in this meeting:

1. ____

2. ____

3. ____

General notes:

Action plan:

Activity	Who is Responsible	Date for Completion	How to Measure Progress

Date and location of next meeting:____

BASIC AGRICULTURAL BUSINESS FINANCIAL RATIOS

A business should be in good financial condition, or capable of being in good financial condition, if you want to bring the next generation into the operation. After all, the goal of transition planning is to transfer the ownership and management of a business so that all parties can be more successful. Financial ratios are one method of determining the financial condition of your farm or business.

Lenders use financial ratios to analyze the financial condition of your business when they evaluate your loan applications. These ratios help them identify potential areas of concern, as well as areas in which the business is strong. The managers and owners of your business can use these same ratios in a similar manner. You can identify the financial strengths and weaknesses of your business. You can also use this information to determine strategies for improving the financial condition of your business.

The Basic Agricultural Business Financial Ratios worksheet will help you calculate and rate seven financial ratios related to your business. The ratios will help you analyze the following areas of your financial condition:

- **Liquidity** – The ability to meet the business' short-term obligations without disrupting normal operations.
- **Solvency** – The percentage of business assets you have paid for with your own funds rather than using borrowed funds.
- **Repayment Ability** – The business' ability to generate enough cash that is available to make its scheduled principal and interest payments.
- **Profitability** – The ability of the farm or business to use the assets to generate profits.
- **Financial Efficiency** – The ability to control the business costs and use the business assets to generate revenues.

To get started, you will need your balance sheet and income statements (Profit/Loss Statements or Schedule F tax forms) to find the information for Lines 1-9 on the worksheet. You will need to obtain the information for Lines 10-12 from your other records. Gather the information for the past three years. This will allow you to clearly see trends in your ratios over time.

You might also consider sitting down with your lender to get help in calculating and interpreting these ratios. Chances are they will be familiar with your financial condition. They will be able to show you where to get the information and how to interpret and use the resulting ratios.

Basic Agricultural Business Financial Ratios

Financial Information Needed to Calculate Financial Ratios

From Your Balance Sheet	2 Years Ago	Last Year	Current Year
1. Current Assets			
2. Current Liabilities			
3. Owners Equity or Net Worth			
4. Total Business Assets			
From Your Income Statement (Profit & Loss)			
5. Total Business Revenues			
6. Depreciation Expense			
7. Interest Expense			
8. Total Business Expenses			
9. Net Business Income (Line 5 - Line 8)			
Other Information			
10. Annual Family Living Expense & Income Taxes			
11. Annual Non-Business Income			
12. Total Annual Principal & Interest Payments			

	2 Years Ago	Last Year	Current Year	Rating (Strong, Average, Weak)	Priority for Action (Low, Medium, High)	Benchmarks Strong	Benchmarks Weak
Liquidity							
Current Ratio Line 1 / Line 2						> 1.5	< 1.0
Working Capital/Expenses (Line 1 - Line 2)/ Line 8						> 25%	< 5%
Solvency							
Owners Equity/Assets Line 3 / Line 4						> 70%	< 40%
Repayment Ability							
Debt Coverage Ratio (Line 9 + Line 6 + Line 7 + Line 11 - Line 10) / Line 12						> 150%	< 110%
Profitability							
ROA (Line 9 + Line 7 - Line 10) / Line 4						> 8%	< 3%
Financial Efficiency							
Operating Expense/Receipt (Line 8 - Line 6 - Line 7) / Line 5						< 65%	> 85%
Revenues/Assets Line 5 / Line 4						> 40%	< 10%

DEFERRED TAXES

When you are considering selling or transferring assets, you might trigger a "taxable event." You may owe income taxes and/or self-employment taxes on current assets that you have already written off as an expense – that is, assets that have a tax basis of $0. Further, you might incur capital gains taxes on the sale of non-current assets (i.e., machinery, breeding livestock, real estate). These taxes can reduce your net worth, which may have a significant impact on the funds you plan to use for your retirement. **It is extremely critical to work with a knowledgeable tax advisor on determining the tax implications of a proposed transition plan.**

To estimate the potential deferred taxes on current assets:

Step 1. List the current market value and the tax basis of each of your current assets, not including your checking accounts and savings accounts. (Line 1)

Step 2. List the current market value and the tax basis for each of your current liabilities (accounts payable, accrued interest, etc.), not including your operating loan principal or your term debt principal. (Line 2)

Step 3. Subtract the total of Step 1 from the total of Step 2 to estimate the current portion of your deferred taxable income. (Line 3)

Step 4. Estimate your deferred federal and state income taxes (Line 5) by multiplying the result of Step 3 (Line 3) by your federal and state marginal income tax rate (Line 4). When in doubt, use 25% as an estimate.

Step 5. Estimate your deferred self-employment taxes (Line 7) by multiplying Line 3 by Line

Step 6. Add your estimated deferred federal and state income taxes (Line 4) to your estimated deferred self-employment taxes (Line 7) to get the current portion of total deferred taxes (Line 8).

To estimate the potential deferred taxes on non-current assets:

Step 1. List the current market value and tax basis for each of the non-current assets. (Line 9)

Step 2. Enter your estimated capital gains tax rate on Line 10. When in doubt, use 15% to estimate your potential capital gains.

Step 3. Estimate your potential capital gains taxes (Line 11) by multiplying Line 9 by Line 10.

Estimating your after-tax net worth upon sale of assets:

When you sell assets, you may incur capital gains (or losses) on the sale. These taxes will reduce your net worth, which may have a significant impact on your quality of life after the transition. Complete the worksheet to estimate the impact these taxes will have on your net worth:

Line A – Enter your net worth from your most recent balance sheet.

Line B – Enter the current portion of deferred taxes. (Line 8)

Line C – Enter the non-current portion of deferred taxes. (Line 11)

Line D – Subtract Line B and Line C from Line A to estimate your after-tax net worth. (Line D = Line A – Line 8 – Line 11)

Deferred Tax Calculations

Deferred Taxes on Current Assets

	Current Assets (not including cash, checking):	Market Value	-	Tax Basis	=	Difference
	Marketable Securities					
	Inventories					
	Accounts Receivable					
	Cash Invested in Growing Crops					
	Prepaid Expenses					
	Supplies					
	Other:					
	Other:					
Line 1	**Total**					

	Current Liabilities (not including operating or term debt principal):	Market Value	-	Tax Basis	=	Difference
	Accounts Payable					
	Accrued Interest					
	Other:					
	Other:					
Line 2	**Total**					

Line 3	Current Portion of Deferred Taxable Income (Line 1 - Line 2; zero if negative)	
Line 4	Estimated federal & state income tax rate	25%
Line 5	Deferred federal & state income taxes (Line 3 x Line 4)	
Line 6	Estimated self-employment tax rate	**15.3%**
Line 7	Deferred self-employment taxes	
Line 8	Total Current Portion of Deferred Income Taxes	

Deferred Taxes on Non-Current Assets

	Non-Current Assets	**Market Value**	-	**Tax Basis**	=	**Difference**
	Breeding Livestock	_____		_____		_____
	Machinery & Equipment	_____		_____		_____
	Farm Real Estate & Improvements	_____		_____		_____
	Other					_____
Line 9	**Total**					_____
Line 10	Estimated federal & state capital gains tax rate					15%
Line 11	Total Non-Current Portion of Deferred Taxes					_____

Estimating Your After-Tax Net Worth Upon Sale of the Assets

Line A	**Estimated Net Worth as of today (from your current balance sheet)**		_____
Line B	**minus: Total Current Deferred Taxes (Line 8)**	-	_____
Line C	**minus: Total Non-Current Deferred Taxes (Line 11)**	-	_____
Line D	**equals: Estimated After-Tax Net Worth**	=	_____

Modified from worksheets developed by Dr. Peter Barry & Dr. Paul Ellinger: Financial Management in Agriculture, 7th edition. Prentice Hall: Boston. 2012."

FAMILY LIVING BUDGET

Whether or not you are planning for a business transition, you should have a good idea of your family living expenses. A family living budget helps you see where your money is going and how it is being used. Hopefully, you are using your household funds to achieve your personal and family goals. However, many times an excessive family living expense can drain cash from your farm or business. Remember, the quickest way to improve your financial situation is to reduce your expenses (without hurting your family or business).

The Monthly Family Living Budget worksheet will help you estimate your current family living expense. Complete this worksheet every month. Most people find it easier to relate to monthly figures because they pay a majority of their bills on a monthly basis.

Each generation in your family or business needs to compare their living expenses with their incomes. This will help the older generation determine how they will meet their living needs as they transition out of the business: Will they continue to withdraw funds from the business, or will they have enough sources of other income to meet their needs? It will help the younger generation determine how they will be able to fund their family and personal goals. It will also help them plan their lifestyle during retirement.

To complete the Monthly Family Living Budget, simply gather the information from your household records (your checkbook register, credit card statements, etc.) or enter your best guess for each of the appropriate categories. Remember, this is looking only at your household; do NOT include any business expenses in this budget. If you are unsure of what value to enter, use the “Estimate” tips that are provided on the right side of the budget or take your best guess. Items for which you have to estimate indicate areas of your household recordkeeping system that need to be improved.

Monthly Family Living Budget

	Planned	Estimate
Gross Income:		
Owner Withdrawal from Farm or Business		
Other Salary & Wages		
Other Income		
A. Gross Income		
Income Taxes:		
Federal, state, & local income taxes		Line A x 20%
FICA (7.65%)		Line A x 7.65%
B. Total Income & Payroll Taxes		
C. Take-home Pay		Line A - B
Planned Savings & Investments:		
Emergency Fund (3-6 months)		
Retirement		See Next Page for
Education		Rough Estimates
D. Total Savings & Investments		Goal: > Line A x 5% to 10%
Expenses:		
Rent or Mortgage Payment (PITI)		Goal: < Line A x 30%
Consumer Debt Payments		Goal: < Line A x 10%
Car Payments		
Outstanding Credit Card Balances		
Student Loans		
Other Consumer Debt Payments		
Utilities:		Goal: < Line A x 5%
Phone, Internet		
Electric, Gas, Water		
Other		
Groceries + Food Away From Home		Average: $250-$300/adult
Gas, Oil, Repairs		Average: Line A x 3%
Insurance Premiums:		
Life		$50/month
Auto		
Health		$400/person/month
Disability		
Renter's Insurance		$10/month
Other		
Personal Items		Average: Line A x 3%
Medical Expenses		Average: Line A x 5% to 10%
Taxes:		
Personal Property (autos, boats))		
Other		
Child Care		Average: $1,500/child/month
Entertainment		Average: Line A x 3%
Miscellaneous		Goal: < $100/month
E. Subtotal of Expenses		
F. Unplanned Expenses (Fudge Factor)		Line E x 10% to 20%
G. Total Monthly Family Living Expense		Line E + Line F
H. Monthly Surplus		Line C - Line D - Line G

Savings Goals

Emergency Fund

1 Your Goal (Monthly Expenses x 3-6 months)	____________________	
2 Current Amount in Emergency Savings	____________________	
3 Amount Needed	____________________	Line 1 - Line 2
4 Desired Number of Months to Reach Your Goal	____________________	
5 Average Monthly Addition to Emergency Fund	____________________	Line 3 / Line 4

Retirement Investments

To Reach $3 million	With no matching contributions	With Matching
In 20 years	$4,000/month	$3,600/month
In 30 years	$1,500/month	$1,200/month
In 40 years	$600/month	$400/month

Assumes:

No current retirement investments
Goal of $3 million for your household at day of retirement
8% annual rate of return on investments
Increase your contribution each year by the rate of inflation
You are not planning on selling your house or business assets to fund your retirement needs

Education Investments

To reach:	$25,000	$50,000	$100,000
In 5 years	$350/month	$700/month	$1,400/month
In 10 years	$150/month	$300/month	$600/month
In 15 years	$85/month	$175/month	$350/month

Assumes:

6% annual rate of return
College tuition in 15 years will cost $50,000/year
(That's roughly equivalent to current tuition of $20,000/year)

LIFE INSURANCE GOALS

Why do you want to have life insurance? What do you want to be able to accomplish for your heirs with your life insurance benefits? What do you intend for your heirs to do with your life insurance death benefits? Having clear answers to these questions will simplify the process of determining what type of life insurance policy or policies you will need and what level of coverage you will need.

The Life Insurance Goals worksheet is intended to help you think about why you might need life insurance. It may also help you and your life insurance agent determine how much coverage you might need.

Here are a few tips to help you complete this worksheet before meeting with your life insurance agent:

Paying for your final expenses

People don't realize how expensive it is to die. A lot of final expenses will need to be paid. Aside from the funeral, casket, burial plot and gravestone, expenses might include outstanding legal fees and medical bills, funds for a family reception or money to purchase 10-15 copies of your death certificate. Planning for these expenses reduces the financial burden on your survivors. Try to get reasonable estimates of the costs of these final expenses in your area.

Paying off debts

Many people want to have enough life insurance to pay all of their debts in full at the time of their death. This reduces the cash flow pressures on their survivors. Determine which outstanding debts in your name you want to be able to pay in full with your life insurance benefits. List the amount that is outstanding and the percentage that you would like to have paid off by your insurance benefits.

Providing annual income for your dependents

A transition period after someone dies is common. The survivors' lives are disrupted through grief, mourning and the activities of closing the estate. When the main earner in the family dies, the survivors may need enough annual income to replace the lost earnings until they can support themselves. Life insurance can be used to provide for your family after your death. It is common for people to want to provide their survivors with annual income for two to three years after death.

Buying out your partner's heirs

Life insurance can be used as a transition planning tool for business owners. When a partner dies, the surviving business partners can use life insurance policies to purchase the deceased partner's share of the business from his or her heirs. You definitely need to work with a life insurance professional on this goal!

Special goals for your heirs

You can use life insurance to fund special goals for your heirs, such as paying their education expenses. Or you can use life insurance proceeds to provide care for heirs with special needs.

Leaving a legacy

Life insurance can also be used to make the world a better place by making contributions to your favorite church and charitable organizations, endowing a scholarship or establishing a community park.

This worksheet is NOT intended to help you determine your specific life insurance plans. It is intended to get you thinking about what you want to be able to do through your life insurance policies. Use this worksheet to get your thoughts in line before you meet with an insurance professional or financial advisor.

Life Insurance Goals

Person: ______________________________

Goal for Having Life Insurance

Paying for your Final Expenses	Estimated Cost	% to Cover with Insurance
Funeral		
Cemetery Plot		
Grave Marker		
Legal Fees		
Medical Bills		
Other:		

Paying off Debts:	Amount Outstanding	% to Cover with Insurance
Mortgage		
Auto Loans		
Farm/Business Loans		
Credit Cards		
Other:		

Providing Annual Income for your Dependents	Annual Amount	Number of Years
Spouse/Partner		
Children		
Others		

Buying Out your Partner's Heirs	
A. Current Value of Entire Business	
B. Partner's Ownership Percentage	
C. Percent You Want to Buy Out	
Dollar Amount Needed (A x B x C)	

Special Goals for your Heirs	Amount Needed	% to Cover with Insurance
Child's Education		
Provisions for Heirs with Special Needs		
Other		

Leaving a Legacy	Amount Needed	% to Cover with Insurance
Gifts to Charities, etc.		
Endowing a Scholarshp		
Other		

RETIREMENT PLANNING WORKSHEET

The business transition process often is much easier and smoother when both the older generations and younger generations have taken action to prepare for their retirement years. The older generation will still need a steady source of income to meet their living needs as they phase out of the ownership and/or management of the business. And remember, today's younger generation will be tomorrow's older generation who will need retirement living income. The main sources of income might include:

- Continued draw from the business.
- Funds from retirement plans (IRAs, etc.).
- Sale of business or personal assets.
- Income from rental properties or other business ventures.
- Social Security.

Having funds on hand for retirement makes the transition process easier for all involved. The older generation won't need to withdraw funds from the business, thereby easing the cash flow pressures on the incoming generation. The older generation won't be forced to sell the entire farm to the incoming generation all at once, thereby making it more affordable for the incoming generation. Or, the older generation can afford to charge the younger generation a lower rental rate for their assets if they want to maintain ownership, again easing the cash flow pressures on the business.

The Retirement Planning Worksheet will help you start to plan for your retirement years. Here are a few tips on completing this worksheet:

Years until retirement
Choose one of the Years until Retirement listed in the tables (Factors A-D) near the bottom of the worksheet to make your calculations easier. Think about what age you would like to step away from the management of the business.

Years in retirement
Again, choose one of the Years in Retirement listed in the Factor X table. Think about your family health history when choosing the number of years you will be retired. When in doubt, choose a longer time frame in retirement. You might want to plan to be retired until age 95 to be conservative in your calculations.

Line 1: Annual pre-tax retirement living expenses (in today's dollars)
This number represents the gross household income (before taxes) that you and your spouse and dependents will need for one year in retirement. Be sure to use a number that is in today's dollars. That is, if you think you would be comfortable in retirement living off of $50,000 in today's terms, use $50,000. Use the results from your Family Living Budget to get a more accurate estimate for this line.

Line 2: Expected annual Social Security benefits (in today's dollars)
You can get an estimate of this figure from your SSA Personal Earnings & Benefits Statement. Be sure to use the value that is in today's dollars. If you want to be conservative in your calculations, enter $0 for Line 2.

Line 3: Expected annual pension income (in today's dollars)
This line represents the income you expect to get from a corporate defined benefit pension. Ask the Human Resources representative at your company for an estimate of your annual pension income. Or, you can estimate this number by multiplying your current salary times your expected number of years of service with that company, and multiply that result by 1.2% (0.012).

Line 4: Expected annual income from other sources (in today's dollars)
If you expect to take an annual draw from the family business throughout your retirement, list the amount (in today's dollars) on Line 4. Also, if you expect to receive income from rental properties or other ventures, list that amount on Line 4 as well.

Line 8: Current value of savings
List the current dollar amount that you have in your retirement accounts, such as IRAs, 401(k), etc. If you plan to sell assets to fund your retirement, list 50% of the current value of those assets. This will account for any taxes or sales fees involved in the sale.

Line 10: Average annual contributions to retirement investments
Enter the average dollar amount that you contribute to your retirement investments, such as IRAs, 401(k), etc., each year.

Retirement Planning Worksheet

Developed by Dr. Alex White, Virginia Tech

Years until Retirement ____________ years
Years in Retirement ____________ years

Nominal Inflation Rate 4.00%
Nominal Rate of Return 8.00%

1. Annual Pre-tax Retirement Living Expenses (in today's dollars) ____________

You'll need roughly 80-120 percent of current family living expenses. If you are comfortable with your current family living expense, enter that number.

2. Expected Annual Social Security Benefits (in today's dollars) ____________

Get this figures from your Personal Earnings & Benefit Statement from the Social Security Administration.

3. Expected Annual Pension Income (in today's dollars) ____________

Estimate this by multiplying your salary by your expected total years of service (at time of retirement). Multiply this result by 0.012.

4. Expected Annual Income from Other Sources (in today's dollars) ____________

Income from continued employment, rental properties, lease of assets, etc.

5. Expected Retirement Income Needed from Savings ____________

(Line 1 - Line 2 - Line 3 - Line 4)

6. Future Value of Additional Income Needed ____________

(Line 5 times Factor A - see table below)

7. Amount Needed at Retirement to Generate Additional Income ____________

(Line 6 times Factor X - see table below)

8. Current Value of Savings ____________

This includes all of your current retirement savings and investment accounts. You may include up to 1/2 of your equity in your house and/or other business assets if you expect to sell these assets to fund your retirement.

9. Expected Future Value of Current Savings ____________

(Line 8 times Factor B - see table below)

10. Average Annual Contributions to Retirement Investments ____________

This includes annual contributions (you and your employer) to defined contribution retirement plans (401(k), 403(b), 457, IRAs, SEP-IRAs, and SIMPLE-IRAs).

11. Expected Future Value of Current Annual Contributions ____________

(Line 10 times factor C - see table below)

12. Total Retirement Capital You Need to Accumulate ____________

(Line 7 - Line 9 - Line 11)

Additional Annual Savings Needed to Reach Your Retirement Goal ____________

(Line 12 times Factor D - see Table below)

Years Until Retirement	2	4	6	8	10	12	14	16	18	20	25	30	35	40
Factor A	1.08	1.17	1.27	1.37	1.48	1.60	1.73	1.87	2.03	2.19	2.67	3.24	3.95	4.80
Factor B	1.17	1.36	1.59	1.85	2.16	2.52	2.94	3.43	4.00	4.66	6.85	10.06	14.79	21.72
Factor C	2.25	4.87	7.92	11.49	15.65	20.50	26.15	32.75	40.45	49.42	79.0	122.3	186.1	279.8
Factor D	0.445	0.205	0.126	0.087	0.064	0.049	0.038	0.031	0.025	0.02	0.013	0.008	0.005	0.004

Years in Retirement	2	4	6	8	10	12	14	16	18	20	25	30	35	40
Factor X	1.963	3.783	5.471	7.036	8.488	9.834	11.08	12.24	13.31	14.31	16.49	18.30	19.79	21.03

Modified from a Money Magazine article (circa 1990). Original author & citation are unknown.

DESIRED GIFTS & BEQUESTS

The thought of estate planning and distributing your assets at the time of your death can be intimidating. In general, people don't really want to think about their own death. However, the earlier you start thinking about it and talking about it with your family, the easier the process will be for everyone.

Remember, not all of your gifting has to occur when you die. You can make gifts to others (people or organizations) throughout your life. As an example, you might want to gift $10,000 of land, business assets or family possessions to each of your children every year. This can be for personal reasons, or to slowly increase your children's equity position, or it could be a part of your estate tax management.

The Desired Gifts and Bequests worksheet is intended to help you clarify what gifts you want to provide during your life and at the time of your death. List the name of the people and organizations to whom you would like to leave a gift or bequest. Also list the specific asset and the timing of the gift. By listing your desired gifts, you can ensure you are including everyone to whom you would like to make a gift; another way to look at this is it will help prevent you from accidentally overlooking someone or treating your heirs unfairly according to your wishes.

You might also consider listing the approximate dollar value of the gift. This can help you determine if you are treating your heirs fairly from a monetary or value standpoint. Remember, you are the one who determines what is fair!

Listing your desired gifts and bequests on this worksheet will also help you see any complications that might arise. For example, you might want to leave a specific plot of land to your daughter in your will; however, you might own that plot of land as a joint owner with your brother, who has right of survivorship. In this case, the land will transfer to your brother by contract, not according to your will.

Consider discussing your gifting and bequest desires with your attorney and your accountant to be sure problems like this won't occur. These professionals can help you understand the most appropriate methods of transferring your assets for your particular situation. They can also help you understand any tax consequences that might arise as a result of your gifting or bequests.

Desired Gifts & Bequests

Name of Donor: ____________________ (Each person should complete this form individually)

Person or Organization:	Asset	Timing (Annually, At Passing)	Value ($)	Total Value ($)

GLOSSARY

Accrual Adjustments

Used to get a more accurate picture of the profitability (net income) of your operation. You need balance sheets for the beginning of the year and the end of the year to make accrual adjustments.

Asset

A resource you use in your business. Assets are listed on your balance sheet at their current market value. Assets can be divided into three classes:

> **Current Assets** – Assets that will be used or converted to cash within one year. Examples include cash, checking/savings accounts, feed inventories, inventories held for sale, and prepaid expenses.
>
> **Intermediate Assets** – Assets that have a useful life of approximately one to 10 years. Examples include breeding livestock, machinery and equipment.
>
> **Long-term Assets** – Assets with a useful life greater than 10 years. Generally, these assets include land and anything permanently attached to the land, such as buildings, fencing, waste management facilities and silos.

Attorney-in-fact

A person you appoint in your Power of Attorney to carry out actions on your behalf. This should be someone you know and trust implicitly.

Current Market Value

Assets on your balance sheet are typically listed at their current market value. This value represents how much the asset is worth on the open market, minus any sales expenses.

Deferred Taxes

A business may face income or self-employment taxes when it sells or transfers assets. Many business owners fail to account for deferred taxes when they are planning to exit from the business. Deferred taxes will reduce the owner's equity.

Estate Plan

Represents how an individual or family plans to control its assets in three phases: during life, at the point of death and after death. The basic components of an estate plan might include a power of attorney, an advanced medical directive, a will, trusts, gifting strategies, life insurance, and long-term care insurance. Estate planning is one component of transition planning.

Financial Ratio Analysis

Financial ratios are a powerful method of analyzing the financial condition of your operation. These ratios require information from your balance sheets and income statements. The main areas of financial analysis are:

> **Liquidity** – The ability to generate cash from your current assets to pay your current obligations (due within one year) without disrupting the normal operations of the business (i.e., selling land to generate funds to pay your loans). The two main measures of liquidity are the Current Ratio and the Working Capital/Expense ratio.
>
> **Solvency** – A measure of the proportion of your assets that you have paid for with your money (your equity) versus the proportion that you have used borrowed funds to purchase. In general, the higher your solvency (as measured by the Equity/Asset ratio), the safer your financial condition.
>
> **Repayment Ability** – A measure of how much cash you are able to generate to be able to make your regularly scheduled loan payments. The Debt Coverage Ratio is the primary measure of repayment ability.
>
> **Profitability** – Measures your business' ability to generate enough revenue to cover your operating expenses and overhead expenses. The main measures of profitability are Net Income and Rate of Return on Assets (ROA).
>
> **Financial Efficiency** – These ratios analyze how efficiently you are using your assets to generate revenues. The Operating Expense/Receipt Ratio is an indicator of your ability to control your costs. The Revenues/Assets Ratio measures how well you are using your assets to generate revenues.

GLOSSARY

Liability

Something you owe to someone else. On a balance sheet, you can break liabilities into three main classes:

> **Current Liability** – An obligation you owe to someone within the next year. Examples include taxes payable, wages payable, operating loan principal, and the portion of your term debt principal that is due within this year.
>
> **Intermediate Liability** – An obligation that is to be repaid within one to 10 years. Examples would be the loan principal remaining on your machinery or livestock loans.
>
> **Long-term Liability** – Obligations with a life (term) of greater than 10 years. Examples would be the loan principal on mortgages.

Operating Debt

Debt that is used to purchase operating inputs (feed, seed, fertilizer, hired labor, etc.) and fund the cash flow of a business. This type of debt is usually repaid in full within one year or one operating cycle. Common examples of operating debt include operating loans, operating lines of credit, home equity lines of credit and credit cards.

Owner's Equity (net worth)

A measure of the solvency of a business. Owner's Equity represents how much of the business' assets have been paid for with the owner's personal funds. Owner's Equity = Total Assets – Total Liabilities.

Power of Attorney

A legal document that gives someone (your Attorney-in-Fact) the power to take actions on your behalf. These actions may include writing checks from your checking account, buying or selling your property, etc. You can specify what powers you want the attorney-in-fact to have as well as when they can have those powers.

Tax Basis

The tax basis of an asset is used to determine the capital gains or losses you might incur upon the sale of the asset. In general terms, the tax basis of an asset is its purchase price minus any accumulated depreciation. Other adjustments may be involved, such as adding the cost of capital improvements to the asset or subtracting the value of the sale of any portion of that asset. See your accountant to determine the tax basis of your assets.

Term Debt

Typically used to purchase non-current assets (machinery, equipment, breeding livestock and real estate). These loans have a life of more than one year, typically from three to 30 years. Examples of term debt include auto loans, home mortgages, machinery loans and student loans.

Transition Plan

A formal plan for how another party will be brought into or removed from a business. It involves the transfer of ownership of the business assets as well as transfer of the management responsibilities/accountabilities of the business.

Working Capital

A measure of liquidity or a business' short-term financial health. You can look at working capital as a business' ability to pay its short-term obligations with the cash it has on hand and the cash it could raise by liquidating its current assets. Working Capital = Current Assets – Current Liabilities.

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