



Regions Wealth Podcast

Episode 24: Keeping the Family Farm: Inheritance and Succession Planning

In recent years, the age of the American farmer has risen to 58 years old. As these farmers approach retirement, some are finding themselves without an heir willing or able to step in and take over the family farm. In this episode, Director of Agricultural Banking Tony Hotchkiss joins us to discuss succession planning and estate planning options for farmers and landowners.

Episode Transcript

Sarah Fister Gale:

Welcome to Regions Wealth Podcast, the podcast that tackles life's challenges with financial experience. I'm your host, Sarah Fister Gale. In recent years the age of the American farmer has risen to 58 years old, and as these farmers approach retirement, some are finding themselves without an heir willing to step in and take over the family farm. Joining me remotely is Tony Hotchkiss, he's the Director of Agricultural Banking for Regions Bank. Tony, thanks for joining us today.

Tony:

Thank you for inviting me.

Sarah:

So, in this episode of Regions Wealth Podcast, we're discussing farm succession planning. We've taken some frequently asked questions from a bunch of people, and developed a character who needs your help, so let's listen.

Alan:

"Hi, my name's Alan, I'm 61, and I'm a row crop farmer, producing primarily corn, soybeans and cotton. I've been running the family farm for 30 years after I inherited it from my dad. Back then, we were just 1,000 acres. But growth was always a big goal of mine, and over the years, we expanded to 9,000 acres.

In the early days, I had my four kids helping out. My wife Elizabeth helps manage the business and paperwork side of things, while I've always stayed focused on working the land. As the kids got older and moved away, I brought in four hands to help me out, and that setup's been great for the last few years.

But Lizzie and I are both starting to think about retirement. I gotta be honest — that's got me a bit concerned. Not the farm—that's running smoothly. But... I just don't think any of our kids are



interested in taking things over. I want them to follow their own paths, but there's a lot of history and memories here. I know I could sell but, for me, the farm has been in the family for so long, I would hate to see it change hands."

Sarah:

So Tony, is this becoming a common issue for farm owners as they reach retirement age, and if so, why?

Tony:

Yes it is. There's more and more farm producers that are finding that succession for them does not mean leaving it to a family member, and so they need to explore options available to them. And like Alan, they want to keep the land in the family because it's been in the family for so many years, and there are solutions that they can explore and I'm happy to discuss them today.

Sarah:

Okay. So, what options does someone like Alan have?

Tony:

Well, every situation is unique, but as he mentioned, they want to slow down, they would like to ease out of the farm the business structure of the farm is very important because that can help determine what options may be available or what changes they may need to make in structure to allow them to accomplish what they want to with the succession plan that they would develop. In the case of Alan, it sounds like he has real estate, obviously, and would have the farm operation which would include some equipment. And it's really important that they look at those assets individually, and potentially create different types of organizational structure for the various assets that they have so that they can make really good decisions about each individual asset and maximize the value of those assets for the benefit of the family.

It's also really important for Alan and his wife to involve the family at the appropriate time as they go through this planning process. Assumptions that Alan and his wife may be making regarding what the children want or don't want, as the case may be, may need to be modified as they ask them questions and involve them in the process, and that would impact decisions they make as they go through the succession planning process. Ultimately, knowing exactly what the family members want and what he and Elizabeth want to accomplish is important so that the plan accomplishes what they want, not what somebody else wants.

Sarah:

So, it sounds like you're saying families need to think more strategically beyond just, "Are we giving the farm to another family member or are we selling it all together?" It sounds like there's a lot of options they can consider.



Tony:

There absolutely are options in terms of how they organize, and how they transition, the period of time, or the length of time that they transition the farm. And it's important to make sure that Alan and his wife accomplish what they want because it's their assets today, but understand what their children would like to have for their generation and beyond so that the plan could be put together accordingly, leveraging the appropriate professionals throughout the process.

Sarah:

OK, so it sounds like Alan has a lot to consider. Let's take a listen to the next portion of his story.

Alan:

"A lot of my neighbors have already retired, and some have rented out their farms. But I'm not sure I'm comfortable with that. Some of those renters don't take care of the farm in the same way the owner did. I take pride in how we operate, and I want to make sure that standard is maintained, particularly if I'm not there to oversee things. When I was in town last week, I got to talking to my neighbor Bill. Well, he suggested that I start by selling off some of our equipment to help pad our savings ahead of our retirement. I'm just not really sure what to do."

Sarah:

So Tony, are Alan's concerns about renting out his farm typical? Can he keep his standards in place?

Tony:

Absolutely, Alan's concerns are legitimate. It's very important with farming that whoever is operating that land, that they pay attention to maintaining the quality of the soil that they're measuring and replenishing the nutrients that are pulled out of the soil to grow the various crops that will be planted from year to year. That they rotate those crops because crop rotation impacts the soil and will impact ultimate yield and how much value can be driven from that farm. It's really important to maintain weed control on farms because there are so many different weeds today that are becoming resistant to different herbicides. And so when Allen is concerned, when he states his concern, about that, I take him very serious. Fortunately, when he looks to find a renter, he can build those things into the rental agreement so that he can protect himself. If he's wanting to bow out and enjoy life and travel, there are opportunities to engage farm management companies, like Regions, we have a farm management group within our company, that can manage the farm on his behalf.

Sarah:

And could you briefly explain how a farm management company works?

Tony:



A farm management company manages a farm on behalf of the landowner, and we at Regions have a farm management group as part of our Private Wealth Management team. Our farm management group has over 40 years experience managing farms on behalf of owners. We have 42 professionals managing approximately 3.2 million acres of various crops throughout the southeast United States.

Sarah:

And will the management company offer Alan advice on how to set up that contract to make sure his land is managed to the standards that he had in place?

Tony:

Yeah. They'll have a series of questions that will help them understand what Alan wants to accomplish short term, medium term, long term, what his expectations and quality standards are for the farm, and that's all built into the agreement. And accountability is set in place so that Alan can have comfort that his land will be taken care of.

Sometimes those contracts are year-to-year, sometimes they're multiple year contracts, it all depends upon the land owner, what their goals and objectives are, and how we can best meet those goals and objectives as a farm manager.

Sarah:

So it sounds like you can step in and help farmers, like Alan, establish what they want a renter to do maybe with the land, and also monitor to make sure they're following on that contract, is that right?

Tony:

Absolutely. Our farm management group works with the landowners to accomplish their goal, to arrange rental agreements that meet the objectives of the landowner, and then we execute those agreements. The agreement between the landowner and the farm management company holds the farm management company accountable to execute the wishes of the land owner as the process goes forward. So it's not just the renter itself that's held accountable, it's the management company, and I believe that a management company could help Alan meet the need that he has to maintain his quality standards on his farm.

Sarah:

Okay. So what about selling off individual farm assets as Alan prepares to retire. What are your thoughts on that topic?

Tony:

It depends upon what their needs are, what their ultimate plan is. This is where Alan and his wife would need to sit down with a professional, and at Regions we have professionals in our Private Wealth Management group that can sit down with them and talk about the various



assets on a farm. Land is just one of those assets, obviously equipment would be another, but they would talk about those different asset classes, what their income needs are. And the plan might include selling some of those assets, but it also might include just renting some of those assets, like land, maybe even equipment, to create income streams to help support Allen and his wife in retirement so that they accomplish their goals.

Sarah:

What about selling *some* of the land? Alan mentions that his farm had grown from 1,000 acres to 9,000 acres, could selling part of the farm be a viable option, at least for the short-term?

Tony:

I think it comes down to an analysis of what they're trying to accomplish, looking at their balance sheet, evaluating the level of debt that the farm operation or Alan and his wife have at the time. Most farmers like to retire debt free, and so through the analysis process you would determine if the debt that they have can be satisfied with just selling equipment and other assets. It all comes down to just looking at their individual situation.

Sarah:

Okay. So, if they do sell off some of their assets, how do they handle that liquidity?

Tony:

Well, that's a great question, Regions Private Wealth Management team have investment professionals that can sit down with them, and with that class of asset, put together a separate plan that would allow them to meet goals and objectives that they have for that liquidity, income needs that they might have as individuals as they retire. And I would encourage them or anyone that ends up with liquidity as they retire from the farm, to sit down with a Wealth Advisor to help them meet those goals.

Sarah:

Alright. Let's pause here and listen to the final portion of Alan's story.

Alan:

"If my kids don't wanna take over, I'd like to set things up so that the farm would still support them all after Elizabeth and I are gone. However, I would like my kids to have the chance to take over the farm if they ever wanted to in the future, I guess. I'm not sure how I could leave it for them in an equitable manner. I don't think I'll be able to manage the farm for too much longer, at least not at this size.

Also, me and Lizzie have some things on the bucket list we'd like to do, and I'd like if we weren't too bogged down with responsibility while we try new things."

Sarah:



So is there a way that Alan can structure things to potentially give his kids the opportunity to inherit the farm should they want to take it over later in life?

Tony:

Well, I would suggest that Alan separate his asset classes and create an entity to own the different asset classes so that if he does have a child that wants to come back to the farm, they can rent assets from those entities thereby creating income to those entities that could be shared equitably among all of the children. In essence, that child becomes the renter versus a non-family member. By organizing and separating the land and creating an entity, and a lot of people choose a land trust to do that, they're able to pass that land through the generations. There are so many options of how they could structure and different restrictions or different requirements that they place in the agreements, which is why it's important for them to work with professionals, that could help them accomplish the goals that they want and make sure that they treat all of their children fairly.

Sarah:

And can you explain briefly what a land trust is and how it works?

Tony:

A land trust becomes a legal entity and the asset of the trust is the land in question. And Alan and his wife could choose to be trustee or they could choose to hire a professional trustee within our Private Wealth Management group. It depends upon the term of the trust, but it allows them to keep the land in the family as long as they choose to so that, that asset is always there to generate an income stream.

Sarah:

So Tony, at the end of each episode we like to ask for some key takeaways, some insights people can share with their friends. What are the key takeaways you'd offer to someone in Alan's position?

Tony:

Well, the first one that I would offer is that it's okay if you don't know what you want to do other than retire and slow down and enjoy life, we at Regions have professionals in our Private Wealth Management group that can help you accomplish what you want to accomplish. And work with them to create a plan.

The second takeaway is that there's no right answer and everyone's situation is different. What's most important is that they accomplish what they want to accomplish with their plan. The third takeaway is it's really important that you work with people that you know and have a relationship with as you develop these plans. I would encourage them to sit down with a Wealth advisor who would help them meet those goals. And lastly, remember that anything that's put in place can be adjusted or modified overtime if priorities, goals or objectives change on behalf of Alan and his wife, or their children if that should apply.



Sarah:

Thank you so much - Tony Hotchkiss, Director of Agricultural Banking at Regions Bank. You've given us some great advice.

Tony:

Well thank you for asking me on today and I have really enjoyed it and I wish everyone well.

Sarah:

And thank *you* for joining us today. Every episode of Regions Wealth Podcast covers a new financial challenge, so be sure to check back, or visit regions.com/wealthpodcast to explore past episodes.

For more on succession planning, check out episode one: Selling vs. Succession.

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