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Planning for retirement and farm succession - the perspectives of NZ farm families

ship Course Project

# PLANNING

**For  
Retirement  
and  
Farm  
Succession**

*The Perspectives of  
New Zealand Farm Families*

**Mark Oldfield  
November 1997**

## **TABLE OF CONTENTS**

<b>Summary of Main Points .....</b>	<b>i</b>
<b>Introduction and Background .....</b>	<b>ii</b>
<b>Objectives of This Report .....</b>	<b>iii</b>

## SUMMARY OF MAIN POINTS

There is a lack of knowledge about Planning for Successful retirement and farm succession in New Zealand.

Overseas and New Zealand literature on issues such as the timing of retirement, retirement options, fairness to all children and the need for planning (Errington 1993/94; Gasson & Errington, 1993; Keating & Little 1991; Eaton; 1993; Lynch 1996; McCrostie Little and Taylor 1997) confirm the general themes of viability (flexibility & stability) communication, fairness, timing (planning) attitudes and stress.

In the majority of cases (McCrostie Little and Taylor 1997) farm succession did not involve a 'farm' as a clearly defined package of land, plant and stock that passes from one generation to the next. Rather, it is a process where the traditions, skills and capital of farming are passed on.

Three succession universals prevail:

- retaining an adequate retirement income
- being fair to all the children
- managing succession so that the successors and the farm business are not burdened with debt.

The following three observations are universal across the generations:

- open communication between the generations
- begin planning and preparation for retirement and succession early
- be open to ideas, be flexible, be prepared to change.

## **INTRODUCTION AND BACKGROUND**

This project was initiated with the aim of facilitating an awareness of the necessity of planning for retirement and farm succession.

This was motivated by personal experience as a successor and ongoing participation as a successor couple in the study by Ruris Consultancy and Taylor Baines and Associates 'Issues of New Zealand Farm Succession' A Study of the Intergenerational Transfer of the Family Farm Business 1997.

Personal experience poses the question - there must be a better way?

Hence the business plan / succession plan approach to retirement and succession with the common threads of viability, communication, fairness, timing, attitudes (stress), as expressed by the above study and others. The structure of the project revolves around the research mentioned above almost exclusively.

## **OBJECTIVES OF THIS PROJECT**

- Firstly to raise awareness of planning for retirement and farm succession.
- Secondly to formulate and enunciate a consideration of the key elements of viability, communication, fairness, timing and attitudes toward retirement and farm succession
- Thirdly in so doing achieve successful farm succession.

**ISSUES OF NEW ZEALAND FARM SUCCESSION:**  
A Study of the Intergenerational Transfer of the Family Farm Business

A Summary or Findings:  
For use at the meetings with professional advisers

By

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# CONTENTS

<b>Introduction</b> .....	<b>1</b>
<b>The Research Method</b> .....	<b>2</b>
<b>The Family Farm Business: A Cyclical Pattern of Ownership</b> .....	<b>3</b>
<b>The Study Farms</b> .....	<b>3</b>
<b>The Succession Process</b> .....	<b>4</b>
<b>Non-Successor Siblings</b> .....	<b>5</b>
<b>Importance of the Farm Remaining in the Family</b> .....	<b>6</b>
<b>The Retiring Generation</b> .....	<b>6</b>
<b>Succession Experiences of the Retiring Generation</b> .....	<b>7</b>
<b>The Succeeding Generation</b> .....	<b>8</b>
<b>Meeting with Family and Advisers</b> .....	<b>9</b>
<b>The Management of Succession</b> .....	<b>9</b>
<b>Planning and the Role of the Advisers</b> .....	<b>10</b>
<b>Dealing with Stress</b> .....	<b>14</b>
<b>Succession Uncertainty</b> .....	<b>16</b>
<b>Issues for Women</b> .....	<b>17</b>
<b>General Comments</b> .....	<b>18</b>
<b>Preliminary Policy Recommendations</b> .....	<b>19</b>
<b>My Conclusions and Summary</b> .....	<b>21</b>
<b>Acknowledgements</b> .....	<b>27</b>
<b>References</b> .....	<b>28</b>
<b>Appendices</b> .....	<b>31</b>

# INTRODUCTION

Family farming has long been held to be the cornerstone of the New Zealand agricultural system. If generational family farming as a means of production is to persist, indeed survive, then the very action of transfer from one generation to the next must be capable of responding to the needs of all the members of the farm family. At the very least, appropriate actions by family members have had to be taken to ensure that the family inheritance, the farm, is not only handed to but is safe with the succeeding generation. Nor must the transactions of transfer be allowed to disrupt the farming operation so that the stewardship of the land is jeopardised. A successful transfer has many elements that include continuity of the business so that the following generation is able to receive a farm that is a 'going concern' and the incorporation of men and women in the successor generation so that both feel part of the family and the business. Stress throughout the process must be low enough that family members still feel a sense of cohesion at the end of the process.

Our research has shown that succession management planning cannot be begun too early and that while farm families regularly endorse this philosophy too many leave planning too late and too few actually manage their succession.

Family farms pass from one generation to another in a cycle of retirement and succession. Our research carried out over the past six years has shown that today there are many pressures, both external and internal, on this generational process - to the extent, that the future of family farming is being questioned by industry observers and an increasing number of farm families themselves. The objective of this research was to investigate the process of family farm succession, as members of the retiring and succeeding generation exit and enter the farm business. The study sought to compare the experiences of succession between retiring and succeeding generations, and the differences experienced by farm men and women.

Farm succession is a process. It is a continuum, a movement in and a movement out, a weaving of the generations around the ownership and operation of agricultural land. There can be no succession without retirement. Progress in the transfer of control of the farm business is determined by the exit and entry of each generation.

Progress in the transfer of control of the farm business is determined by the exit and entry of each generation.

Because succession is a process where generations progress through the actions of transfer, it is also a dynamic to be managed. In the same way that the farm business is managed, so should consideration be given to the management of succession.

This study of family farm succession in New Zealand sought to examine:

- ownership of farm assets between generational family members,
- the role and status of family members in the farm business structure, ownership, management and decision making,
- the level of family consultation and communication during the succession process,
- the identification of stress within the process,
- the entry of the succeeding generation into positions of management and ownership as the retiring generation exits.

## **THE RESEARCH METHOD**

The research has been funded by the Rural Affairs Unit, MAF Policy, Ministry of Agriculture. The results will be of benefit both to the development of rural policy, and to the farming community as they develop sustainable agriculture strategies for the future.

Sixty farm families active in the process of succession were identified in North Otago, South Canterbury and the Manawatu-Wairarapa. In each of these three areas ten retiring generation farm couples and ten succeeding generation farm couples were interviewed. (The exceptions were five single male successors.) The interviews took between one and a half and two hours. Generations within the same families were not interviewed.

Information from these in-depth interviews was collated and analysed and a summary of the results sent to the respondents, some of whom took the opportunity to attend small meetings to discuss the research findings before the final report was completed. The approach was therefore largely qualitative to obtain a detailed understanding of the succession process as it effected a variety of farm families at different stages of their intergenerational transfer of land and the farm business operation.

A technical report describing the research result is being completed for MAF Policy and in due course will be prepared for publication. At the same time and with partial funding from MAF Policy (further funding is being sought from the commercial sector), Agricultural NZ has jointed with Ruris Consultancy to prepare an effective succession management guide, or manual, based on information gained as a result of the research. The manual will be available to farm families and their succession advisers.

# THE FAMILY FARM BUSINESS: A CYCLICAL PATTERN OF OWNERSHIP

In the great majority of cases the process did not involve a “farm” as a clearly defined package of land, plant and stock that passes from one generation to the next. Rather, it is a process where the traditions, skills and capital of farming are passed on.

The pattern of farm business ownership reflects a transitory cycle through farm succession to full ownership to retirement. An important finding was that in the great majority of cases the process did not involve a “farm” as a clearly defined package of land, plant and stock that passes from one generation to the next. Rather, it is a process where the traditions, skills and capital of farming are passed on. Central issues in the process are the maintenance of:

- a heritage of family farming,
- a viable farm business,
- a basic level of household income.

The young male farmer, usually married by this time (often to a woman with a farming background), enters a process of succession to a family farm. The couple start their farm ownership by acquiring stock, plant, that sometimes small blocks of land, perhaps land that is not currently part of the retirement farm, and sometimes with an additional house. At this stage the farm male is in full-time paid employment on the property, but has started to take on joint management, with his father or other close male relatives such as an uncle. He is very much an apprentice.

The pivotal point in succession is the acquisition of land ownership.

## THE STUDY FARMS

### *Farm Types*

The farm types were predominantly sheep and beef or mixed stock. On average the retirement farms were larger than the succeeding farms - but they did not necessarily carry more stock. The size difference suggests that at least parts of the property may be split off in the succession process and/or the inability of the successors to find the capital to buy the type of unit that they might end up with. Average pre-tax farm surplus was higher on the retirement farms than on the succession farms, reflecting lower average liabilities and higher equity.

## *The Farm Family*

The average age of the retiring generation were 59.4 for males and 59.3 years for females. The males had been farming an average of 42.9 years, they were all married. While only a third of the retiring generation were employed in off-farm work they were more involved in non-core enterprises and off-farm investments than their successors.

The average age of the successor males was 32.2 years and 29.8 years for the females. The males had been farming an average of 11.6 years and five of the men were single. These successor men and women had strong roots back into farming, with heritages extending to six generations. Farming generally had been the first career preference for the successors, nevertheless parents regularly encourage children into qualifications other than or as well as farming. Over half of the children of the retirement generation and their contemporaries, the successor farmers and their sibling, had some tertiary education. A gender imbalance exists, with up to twice the number of females having tertiary training. This generation is likely to have had one or both members in current or recent off-farm employment.

## *Farm roles*

Generally the retiring males described themselves as the sole major operator, however when the role was in transition between the generations they described joint operations between themselves and their son. Only a minority of the retiring women still had a full time role on the farm, for most, work was either part-time or seasonal-casual. Nevertheless there was no evidence that they were completely phasing themselves out listing farm and household work directly related to the farm operation.

All of the male successors had a full-time role on the farm. Some described themselves as the major operator, the remainder were in joint operations with their fathers. However, a few shared the role of major operator with their spouse. In these cases the women had limited decision making involvement. Some of these successor women were farming full-time.

Gender specific farm and household roles were well cemented in place, although successor couples were more likely to share household roles. Nevertheless, farm families are still largely patriarchal and hierarchical in nature and structure.

## **THE SUCCESSION PROCESS**

The objective of succession is the successful passage of the farm business from one generation to the next, should the successor generation be so burdened with debt that the viability of the farm business is jeopardised then the very goal of succession is defeated. Succession is eased in proportion to the family's financial status.

There are three universal dilemmas that every farm family, for whom farm succession is a goal, must resolve. How families balance the resolution of these dilemmas will depend on the characteristics of both the family and the farm business. How well they balance the resolution will determine the success of their succession. The three factors to be resolved are:

- Retaining an adequate retirement income.
- Being fair to all the children.
- Managing succession so that the successors and the farm business are not burdened with debt.

Farm succession in New Zealand is still predominantly patrilineal and controlled by a patriarchal system of succession. The trend for woman farmers is in the ascent and order of logic will ultimately determine that daughters as well as sons as of right will be considered by their families as potential farm successors. While patriarchy prevails primogeniture does not.

Succession is not always straight forward. Frequently it is dependent upon resolution of family complexities, the economic stability of the farm, the state of the agricultural industry and family indecision regarding succession.

## **NON-SUCCESSOR SIBLINGS**

The impact and influence of non-successor siblings throughout the succession process is much greater than previously appreciated. Current social moves decree that one child should not be advantaged over another. A succession dilemma for farm families is when sibling equity impedes the transfer and continued development of the farm business. The irony is that siblings generally support the retention of the family farm while seeking equitable asset distribution.

Treating all their children equally can become a major dilemma for farm families. Treating all children equally and ensuring succession is a financial impossibility for the majority. Therefore families strive to be fair rather than equal in their provision for non-successor children.

The non-successor siblings can become the invisible successors as their presence determines the financial future of both the farm operation and the farm successor. These invisible successors also influence decisions regarding the retention of the family farm and they hold expectations of the farm continuing to be their 'home' regardless of careers and lifestyles that may take them far from the farm. Today's successors seek the approbation of their siblings throughout the succession process - family harmony for this generation is a critical aspect of family life.

## **IMPORTANCE OF THE FARM REMAINING IN THE FAMILY**

Most parents today would not wish to 'pressure' children into retaining the family farm. Parents more importantly want their children to be happy and to be able to treat them fairly even if this means not retaining the farm. Children are often encouraged to seek an off farm career first.

However the previous generation, especially the males thought it was important that the farm remain in the family. They believed that the rewards of hard work in one generation should be passed onto the next. For some families the retention of the farm can become a conflict between the pragmatic and the emotional - 'a real head and heart battle'.

Retaining the family farm for non-successor siblings is often important as they still see the farm as home. Whether they ever have a financial or ownership stake in the farm business maybe immaterial because many will retain emotional ownership of the farm throughout their lives.

## **THE RETIRING GENERATION**

The major dissatisfaction for retiring men and women is a reduction in income. Expectations of being financially independent in retirement is not being met. Disillusionment exists when after a life time of hard physical work earned retirement becomes a financially deprived retirement. The ultimate lack of retirement income results in farm sale rather than farm succession and points to the necessity of early succession management strategies.

It is not the actual retirement that people fear but ageing and failing health. Thus most universal conditions, ageing and decline, is not factored into retirement strategies and appears to come upon the scene as an unexpected and unpleasant intervention. Farming remains a largely physical occupation, the onset of ageing restricts farming activity. In cases of late or slow succession successors identify the negative impact on the farm business of ageing and increasingly physically incapacitated parents (fathers).

# SUCCESSION EXPERIENCES OF THE RETIRING GENERATION

The study sought to compare the succession process as between the two generations. To form a comparative base the retiring generation couples were asked to describe their own succession experiences.

***Size farm business/length process vs succession success:*** This generation identified a relationship between the length of the succession process and its ultimate success with the size of the farm business operation. For their part, successors had identified the potential of the length of the succession process to impact negatively on the operation of the farm business.

***Stress:*** Some succession experiences (of the retiring generation) were 'wholly stressful' although a caveat that 'it worked out in the long run' was frequently added hinting at hindsight wisdom.

***Dissatisfactions:*** Yesterday's dissatisfactions sound familiar today - trying to persuade ill fathers to retire, raising money with which to secure the farm and raising money to buy out siblings and coping with 'lean years'. Also familiar, the fact that the majority of the retiring generation would have preferred their succession earlier.

***Influence of experiences:*** Those for whom succession had been a negative experience were at pains not to repeat what they saw as the 'mistakes' of their parents, the then retiring generation. Those for whom succession had been a positive experience made no change to their own succession strategies following the example set by their parents, grandparents of today's successors. Positive examples that were followed included early planning. Early planning, it was argued, went hand in hand with a strong family history of succession.

***Generational differences:*** The generational differences when they came, came in farm ownership structures and they came for women. While farm ownership then appears as complex as it is today and while farm partnership was a recognised form of ownership such arrangements seldom included women - whereas current partnership arrangements do. At the time of their succession, retiring women often made a financial contribution to their farms, such contributions were much less likely to be recognised with an ownership stake than they are today.

Generational differences as they apply to the position of successors overall, are not great. What differences there are, especially regarding gender role divisions, reflect more the changing role of women in society than they appear to reflect any major change in farm family attitudes. The changes at this time are driven from outside rather than from within.

# THE SUCCEEDING GENERATION

## *Delayed succession*

Delayed succession or a reluctance to retire when farm succession is a goal impacts negatively not only on the farm business but also on family relationships. Uncertainty, or not knowing if or when they were to be farming the family farm could be one of the most stressful aspects of being the successor.

Twenty years ago Kaplan (1979) argued that ‘around age 42’ a farmer is no longer ‘pushing the development’ of his farm. This is the time when ‘modernisation of the kitchen and the house are likely to occur’, when farm development money is put to other uses. Today the age may have advanced but Kaplan’s argument remains unchallenged.

The negative impact of delayed development or management decisions challenges the concept of the stewardship of the land and handing the land on in better heart than it was received. Delayed succession has an impact beyond the individual farm gate, it impacts on the industry as a whole and it is at this point that the succession process and sustainable agriculture transact.

<b>Problems Relevant to Timing of Succession</b>	<b>Problem Solving Strategies</b>
<ul style="list-style-type: none"> <li>• the reluctance of parents to retire,</li> <li>• the succession process taking too long,</li> <li>• high farm indebtedness and</li> <li>• uncertainty about their position as successors</li> </ul>	<ul style="list-style-type: none"> <li>• less delay,</li> <li>• better communication between the generations,</li> <li>• less farm indebtedness and,</li> <li>• exclusively from the males, less reluctance from parents to retire.</li> </ul>

## *Participation in succession decisions*

Generally successor couples are part of the succession decision making process. However, for some their participation can be less than happy. For instance, the male may be included in decision making but the female is not or that while they and other members of the family participate the retiring generation male has the controlling say.

## MEETING WITH FAMILY AND ADVISERS

Farm families in New Zealand appear not to hold regular family meetings to discuss the future of the farm. What they do hold are meetings that are irregular and reflect the characteristics of the family. For instance, they are more likely to be held at times of celebration or festivities when all the family members are at home. Other family meetings had special characteristics like 'usually only between the males'.

Farm families today should require that their advisers, as well as being knowledgeable about all aspects of the farm operation, are aware of the needs and the succession aspirations of all member of the farm family. The time is long past when advice can be distanced from the issues.

The absence of women, indeed the acceptance of their absence, from meetings is disturbing. While women may contribute to their farm businesses financially and through a labour contribution and have these contributions acknowledged with an ownership stake they are still largely absent from management and decision making. Their absence from the intergenerational transfer meetings with the family advisers may be a continuation of management discrimination.

## THE MANAGEMENT OF SUCCESSION

For families on a sound financial footing succession offers fewer dilemmas. The one practical factor likely to resolve succession problems is either an injection of finances or farm financial success (good farming years). The one practical factor likely to resolve retirement problems is also an injection of finance.

For a financially untroubled retirement:

- succession planning must be begun early.
- planning for succession should be considered as succession management
- strategies for succession management and farm management should be devised in tandem from the beginning of the generational farm cycle.

### *Succession management*

Succession management should sit parallel with farm management within the context of the farm business plan. As strategies are developed for the management of the farm business so should strategies be developed for the ultimate succession of the farm. Devising a strategic management plan for succession early in the life cycle of the family and the farm business will ensure that strategies are flexible and alternative options are identified.

## ***Succession positives***

The two actions that generations can take to ensure farm succession proceeds smoothly are communication between and with all members of the family and beginning succession management early in the farm business life.

## ***Farm goals***

While farm goals are similar between the generations farming techniques or the methods of achieving these goals differ. Some goals are 'maximising profit' or 'leaving the farm in good heart' are becoming generational goals. Successors are more 'systematic' and 'business orientated' than their parents.

## ***Strategies***

Successors may initiate their own succession management strategies. They are prompted to do so for any of the following reasons:

- parents find the succession legalities complex,
- the reluctance of father to acknowledge the restriction of failing health on their farm activities
- a reluctance (by parents) to withdraw from farming,
- or a fear (by parents) of 'losing control' of the farm operation.

# **PLANNING AND THE ROLE OF ADVISERS**

## **THE ROLE OF THE ADVISERS**

Respondents were frequently ambivalent about the role of advisers in the succession process. Criticisms include advisers not being aware of the options available to today's farmers as they manage their succession strategies, of discounting the women in the farm family, and of not always being able to give individual advice if in addition they advised the family or the retiring generation.

## ***Professional advice - retirement/succession***

The use of professional advice was high amongst the retiring generation. Advice was sought from lawyers, accountants, bankers, investment/insurance brokers, farm management consultants and financial planners. Within this bracket accountants featured most frequently, this may be a reflection more of the central position of the accountant in the farm's financial management than a deliberate seeking out of accounting advice. A number of respondents of both generations initiated their own management strategies and only then sought their advisers' endorsement.

Almost without exception successors in the study had already sought professional advice. Like their parents they often sought advice from a mix of advisers but unlike their parents insurance or investment brokers did not feature in their mix - although accountants still did and strongly. Some respondents who had shared advisers and advice with their parents had disappointing experiences and had become articulate advocates of the use of individual advisers. Several of the successor women reported that having achieved a presence at family meetings, they were then either ignored or discounted by the adviser. They described the treatment they received as stressful and less than satisfactory, although both men and women in this generation could experience stress when dealing with advisers.

## **PLANNING BY THE RETIREMENT GENERATION**

### ***Retirement Plans***

Just over half of the retiring generation couples only discuss their retirement plans with each other. A small group of respondents discussed their retirement plans only with their professional advisers, while the balance (40%) discussed their plans with their families and friends. The majority of these discussions were informal, irregular, and mainly held on the farm, often in the homestead at 'smoko' or meal times.

### ***Farm goals and hopes***

The majority of the female respondents in the study only discussed farm goals with their spouse. By contrast, the male respondents divided their discussions between their son/s and their spouse. The women did not seek individual or separate discussions with their sons, and joined in the discussion with them only when other family members or their spouse were present. Further, while retiring generation males discussed farm goals with a mix of people outside the family including professional advisers and farm discussion groups. Farm women did not usually discuss farm goals with anyone other than family members. Twice the number of women reported discussing farm goals with their husbands than the men reported discussing farm goals with their wives.

### ***Family Meetings***

The majority (70%) of the respondents did not hold regular meetings to discuss the future of the farm. But the analysis shows that families were more pro-active regarding family meetings than might be assumed from the negative response to this question. Families did hold meetings but they were irregular and reflected the characteristics of the family. When children were travelling, family meetings were held on their return, or at Christmas or other times of celebration when the family was most likely to be at home. Other family meetings had special characteristics like 'regular, usually only held between males' or 'they were only held when professional advice was sought.' Regular family meetings to discuss the future of the farm were without

exception held on the farm. Irregular family meetings are more likely to be divided between the farm and the offices of the professional advisers.

### ***The family***

Who constitutes the 'family' becomes critical when considering these meetings. For a third of the retiring generation couples, the family constituted themselves and their successor son; for 28% 'the family' constitutes the retiring couple and the family males; and for a final 28% it constitutes the retiring couple and the sons and their spouse. For 20% 'the family' constituted the retiring couple, all their children and their spouse. Therefore, for all but 20% of the respondents 'the family' represented a restricted group within the immediate family. A third of the respondents noted that female members of the family should attend 'family' meetings.

### ***Professional advice***

Three quarters of the respondents had sought advice concerning their retirement from two or more professionals. Only three members of the retiring generation reported that they had not sought professional advice. The professionals included accountants, lawyers, farm advisers/farm management consultants, investment/insurance brokers, financial planners and bankers. Accountants were by far the most popular choice for retirement advice, being sought by just under 80% of the respondents. A number of respondents favoured initiating their own strategies and only then seeking endorsement from their professional advisers.

### ***Latest meeting with professionals***

The most recent meeting with professionals was held just seven days before the survey interview - the greatest time since a meeting had been held was four years, 1991. Two thirds of the respondents had met with their advisers during the year of the interview. For 84% of the respondents the meeting was held off the farm, in the town or city offices of their advisers. With the exception of agricultural/farm management advisers, the incidence of professional advisers visiting the farm was not high.

### ***Which family members attend***

Over half of the retiring generation males reported that other family members did not attend these meetings. A quarter of the meetings were attended by the successor son/s and a final quarter by the son/s and their spouse. Family members who were reported as never attending included daughters and daughters-in-law; the remainder of the family who are not 'involved in the farm' and including retiring generation women. Daughters, daughters-in-law and retiring generation women were reported to 'rule themselves out' because they work off the farm and are not available for meetings.

There was no suggestion that meetings should be held at times that would ensure their participation.

## **PLANNING BY THE SUCCESSION GENERATION**

### ***Succession Plans***

As would be expected, the succession generation met most often with retiring generation males and parents to discuss their succession plans. Without exception, succession couples discussed the succession plans together.

### ***Farm goals and hopes***

The data show that this generation always discussed their farm goals and hopes with each other as well. But half of the respondents only discuss their farm goals and hopes with each other. There is a major difference here compared with the retirement generation in that the successor women were involved in all the discussion, whether it was confined to the couple or an additional mix were involved, including professional advisers, parents, siblings or friends.

### ***Family meetings***

Eighty-six percent of the successor males reported that they did not have regular family meetings to discuss the future of the farm. For those who did, there appeared to be a wider, less restrictive range of family members who attended than evident for the retiring generation.

### ***Use of professional advisers***

A number of the successors initiated their own succession plans as a result of a reluctance on the part of the senior generation to take action. Some respondents also reported that their parents found the succession legalities complex and overwhelming. Failing health, particularly for retiring males, their reluctance to acknowledge this restriction in their farm activities, and a general reluctance of the retiring generation to withdraw from farming or their fear of 'losing control' were the reasons why the successors initiated the succession process. Successors noted that in these circumstances discussion needed to be comprehensive to ensure that they accounted for their parents' needs as well as their own aspirations.

### *Professional advice*

Almost all (93%) of the successors had sought professional advice regarding their succession plans. Like the retiring generation, the successors often sought professional advice from a combination of advisers. Unlike their parents, insurance or investment brokers did not feature in these combinations but accountants featured strongly. Successors equally either shared their parents' advisers or sought their own. Some who shared advice with their parents had disappointing experiences and were articulate advocates of the use of their own advisers.

### *Who attends meeting with professionals*

Half of the successors reported that other family members did not attend meetings held with professional advisers. Family members who did attend were most likely to be parents and to a lesser extent siblings. Siblings formed the majority (47%) of family members specifically identified as not attending these meetings. But the successor spouse was also identified in 25% of the cases (often explained as being due to her off-farm employment). The successor generation were more aware than the retiring generation when their last meetings with professionals had been held. They gave specific dates, suggesting the importance of these meetings to the successors as they progress towards their succession.

### *Where meetings are held*

The majority (72%) of these meetings were held off the farm. For over a third of the successors, meetings had never been held on their farms. While some successors had experienced an on site farm meeting with at least one of their advisers, (the data is unclear because of the presence of farm advisers in the mix of professionals) there is no indication that professional advisers, apart from farm advisers, are regularly visiting their clients on their farms in an effort to become familiar with the farm operation and the family situation.

## **DEALING WITH STRESS**

There can be no succession without retirement, no entry without exit but even in families where succession is a goal there is often a reluctance by the retiring generation to leave the farm, to let go. The process is stressful and stress is frequently attached to major points of decision making.

### ***Single men - successors***

Single men have their own set of stresses, in addition to the stress associated with the succession process that include:

- the loneliness of working their farm on their own
- the demands of housework - cooking
- the loss of mother's role
- decision making on their own
- and the loss of the parent's support.

### ***Retirement fears***

The greatest retirement fear has nothing to do with actual life after farming. Ageing and decline were what were least anticipated as retirement approached. Men identify a cluster of retirement 'fears' like urban life, boredom and losing position, mana and power. Women concerned about a lack of finances.

### ***Succession fears***

Successor men identify stressful issues as:

- uncertainty about succession,
- financial and farming uncertainties,
- pressure of sole charge,
- lack of communication between the generations.

Successor women identify similar issues adding:

- family relationships,
- child care pressures (in the context of the farm and financial situation)
- adjustment from town to country life (in the context of understanding the succession process).

Successor men find the initial stage of the succession process the most stressful.

For them:

- the initial approach to their parents
- initiating the process
- being 'in limbo' while decisions are made
- uncertainty about the succession outcome
- deciding on the method of succession,

all result in this stage being the most difficult.

For successor women there is not ‘most difficult stage’ but for some the ‘slowness’ and the ‘length of time’ the process takes is a concern.

The following chart suggest how succession stress can be relieved.

<b>Retiring males</b>	<ul style="list-style-type: none"> <li>• an injection of finances (either through an upturn in the farming economy or an increase in farm surpluses)</li> <li>• communication between the generations</li> </ul>
<b>Succeeding males</b>	<ul style="list-style-type: none"> <li>• resolving uncertainty by settlement of their succession</li> <li>• financial success</li> <li>• better communication between the generations</li> </ul>
<b>Retiring females</b>	<ul style="list-style-type: none"> <li>• improved farm finances</li> <li>• good communication</li> <li>• the actual move</li> <li>• resolving succession issues</li> </ul>
<b>Succeeding females</b>	<ul style="list-style-type: none"> <li>• farm financial success</li> <li>• family harmony</li> </ul>

## SUCCESSION UNCERTAINTY

Each generation of males identified two identical factors that would relieve their succession stress - an injection of finances and open communication. The successor generation males identified a third factor - the resolution of their succession uncertainty. It is unlikely that the retiring generation appreciate the importance to the successors of resolving succession uncertainties. Too many successors felt that their succession was still an uncertainty and until they were assured of it they could do little to forward manage either their lives or the farm operation. Uncertainty about their succession was a major dissatisfaction for successors who described their feeling of being ‘in limbo’ waiting for the situation to be settled. The irony being, that each generation strongly advocated open communication throughout the succession process.

## ISSUES FOR WOMEN

The structure of farm ownership is in a state of change as increasingly farming families retreat from sole proprietorship as the favoured form of farm ownership and nominate a 50/50 equity partnership as their preferred ownership arrangement. The characteristics of these equity partnerships determine their working nature with women contributing to the farm business in the areas of finance and labour. The labour contribution is historical, the financial contribution owes more to the recent high incidence of off-farm employment amongst farm women but not exclusively so. Today's farm women expect a decision making role in their farm businesses, they do not expect to be on the 'sounding boards'. While women may be slow to take up management roles on their farms the growing popularity of working farm partnerships amongst farm couples will ultimately ensure that management as far as practical, is shared between the partners. The patriarchal dominance of farm families will increasingly be changed as partnerships prevail and pressure for social change impact on the hierarchical nature of the family farm structure. In terms of succession, these changes will lead to an acceptance of daughters as natural successors to be considered alongside sons.

Social attitudes are changing and farming is increasingly acknowledged by the community as a career for men and women. Successor women like successor men, experience an evolutionary progress towards their ownership stake often first entering into a partnership agreement with their spouse in farm stock or plant.

Some women wait to gain a place within the farm business especially when there are rigid family and business structures. Generally however, most successor women consider that they are partners in the succession process.

### *Farm family structure*

The structure of farm families remains patriarchal with the major decision making role being retained by the farm male. Successor women are taking a greater role in their farm operations than did the previous generation women. They make financial contributions to their farms early in their life cycles and they expect formal arrangements to acknowledge those contributions in the form of an ownership stake. Farm women across the generations have contributed labour to their farms and acknowledgment of that contribution in ownership has sometimes been slow to come.

## GENERAL COMMENTS

During their interviews, farmers made a number of general observations and gave advice about 'Successful Strategies for Retirement and Succession of Farms'.

- Open communication is needed at all stages, with some give and take. It helps to give some 'control of your own destiny'.
- 'Open communication is needed between the generations', especially intergenerational discussion of the goals and objectives of each generation.
- 'Include the siblings' - work the process through as a family unit.
- 'Begin planning and preparation for retirement and succession early.' Successor couples maintained that planning can never begin too early and must be flexible to allow for any sudden family or farm changes. But planning is restricted unless communication between the generations is already established.
- Be open to ideas, be prepared to change, 'be flexible.'
- 'Work towards positive points and actions', like establishing Trusts as a vehicle to formulate succession plans.
- 'Tolerance', was an important ingredient in the succession process identified by both generations.
- 'The evolutionary process of succession can help to negate stress.'
- 'It was accepted that succession was eased if the financial situation was not limited': parents needed to have their security worked out so that it is not dependent of the succession.
- 'The inclusion of the women' (the retiring spouse and the daughter-in-law) in discussions and meetings was a necessary component identified by the succession generation.
- Successors commented that 'siblings were generally supportive' of their succession goals but it was the 'support of parents' that was fundamental if the process was to succeed.

The following three observations were universal across the generations:-

- ◆ Open communication between the generations
- ◆ Begin planning and preparation for retirement and succession early
- ◆ Be open to ideas, be flexible, be prepared to change

# **PRELIMINARY POLICY RECOMMENDATIONS**

## ***Succession Manual***

MAF Policy, in alliance with Agriculture NZ, to embark on a programme to educate farm families on the necessity of early succession management to ensure that succession can be successfully achieved. The succession manual which is the subject of a separate project (presently partially funded by MAF Policy) is the first step towards completing such a programme.

## ***Communication***

Great importance was attached by each of the generations to maintaining open communication between the generations and between family members. MAF Policy, Agriculture NZ and other sectoral groups and organisations have a leadership role in encouraging the organisation of series of seminars to discuss all aspects of succession and retirement. Such seminars increase the general debate, stimulate discussion and ultimately encourage communication within the farm family.

## ***Delayed Retirement***

Farmers should be encouraged to retire early rather than late. Programmes supporting early retirement and identifying the steps necessary if a financially deprived retirement is to be avoided should be set up MAF Policy in partnership with farmer groups.

## ***Succession management***

MAF Policy agents and Agriculture NZ consultants should include encouragement of succession management strategies alongside farm management plans in their advice to farm families. Succession advisers to farm families should also be encouraged to include succession management planning with farm management strategies.

## ***Non-successor siblings***

Further research is required to better understand the effect on the process of the intergenerational transfer of land and the farm business by the non-successor siblings and also to better understand the effect and influence of these farm family members on the life cycle decisions of the successors and their parents, the retiring generation.

## ***Equity and testamentary claims***

In November 1996, the Law Commission distributed a Preliminary Paper 'Succession Law - Testamentary Claims' for comment. The agricultural sector needs to be aware of this document and be assured that nothing contained within it will in any way hamper the process of farm succession. At this time the authors of this research report have not found such assurance in the document. The fulcrum for debate rests on the difference in farm succession between treating children equitably and treating equally.

Testamentary claims by children against their parents' estates could in the worst of all worlds, impede succession, challenge ownership and the status of the successor as principle operator to the detriment of the farm business, the stewardship of the land and the sustainability of agriculture.

An economically healthy and sustainable agricultural sector is closely inter-related with sustainable succession strategies.

Heather McCrostie Little  
Ruris Consultancy Ltd  
Cust  
North Canterbury

C. Nicholas Taylor  
Taylor Baines & Associates  
Rangiora  
North Canterbury

## CONCLUSIONS

- The concept of treating all family members equally is not one to argue with - *NOT MANY* farmers who have a viable farm ~~who~~ could transfer land, stock and plant at current market values or close to current market values to a family member and still treat all family members equally.
- On the other hand, there are quite a number of approaches, actions and plans that can go quite some way towards diluting the structural problem referred to in the previous point - in a broadly similar way planning for school fees and tertiary education expenses from a farmer's perspective can involve utilising two key pluses - firstly we usually know precisely when the costs are going to start and over what period and secondly we usually know fairly closely what those costs are going to be - with most significant on farm capital costs these two points are exactly what we don't know.
- Family and advisors are not mind readers - sometimes the most unsatisfactory farm issues are those that for whatever reason never leave the recesses of a farmer's mind. Communicate your thoughts and your feelings and your wishes and encourage your spouse to do the same.
- You may be up to your ears in debt still and be a long way from wanting to let the reins go, but listen to the beat of your spouse's drum - listen to what your family feel and think about the succession issues.
- There isn't a magical age by which time sons or daughters could or should be brought into the ownership and trading arrangements - each family and its advisers will have to work through this. Once though, the picture is clear as to what all concerned wish to happen, then make some positive, constructive moves - usually there is no substitute early on for getting some responsibility shifted onto the incoming family member. The transfer is likely to be piecemeal, that is spread to some extent over a 5-10 year period with responsibility and accountability being transferred steadily. In some cases the transfer of ownership and management is relatively quick and with others is quite gradual - mothers are often very important umpires, referees or arbitrators.
- Full family meetings early on are usually well worthwhile such that all concerned have a chance to air their views and feelings.
- Develop a time frame for yourself and spouse and insist the incoming family member do the same - make sure you both mark the time frames with destinations and dates - certainly the time frame will be kicked all around the yard and will become flexible and elastic but that is what goal setting is all about - you must avoid a situation five years down the track where one of the parties is expressing the comment that they never realised such and such was what you had in mind.

- You must not only get advice - you must get top advice - quite apart from the dollars involved, you have at least two families' financial future on the line and you must make sure the ownership and trading arrangements are well set up. Don't agree to anything unless you completely understand it.
- Be cold blooded about the financial viability - do the homework carefully - many Farm Management Consultants are very close to farming families and are in a very good position to really assist in this area. Take those hard decisions early on.
- Sometimes, rather than succession, the best decision is a sale and the capital be invested elsewhere - it is wrong to think of a sale in these situations as being in any way a failure - sometimes what this means is the family is facing up to the hard decisions.
- It is easy to lose sight of the fact that the parents' wishes and financial requirements should be paramount - they should within reason be able to go on farming as long as they want to - succession planning often involves family partnerships of various types which carry on successfully for many years. Advisers can play a key role here re the transition process. Good succession planning involves fitting around the parents' wishes and requirements, not re-making their wishes and requirements.
- Commit your plans and objectives to paper - take minutes of key family meetings. Make sure your advisers get a chance to have input on any important issues - before the event, not after. There is no substitute for a certain amount of formality in these succession matters regardless of the family aspect.
- Make sure all family members' Wills are up to date, particularly after any key agreement and/or formal transactions - don't let this aspect destroy what will have been well thought out and well carried out moves. Make sure you have a plain English understanding of what you have said in your Will.
- Matrimonial breakdowns and split-ups - 15 years ago in rural New Zealand they were relatively rare but not so today.
- Don't leave your run too late. Succession planning and action while the parents are alive is one thing but succession planning and action when the parents are not alive is another thing again. It is not impossible but Trustees are not the same as parents and you cannot expect them to be. Choose your Trustees very carefully but don't delegate any more key decisions and problems to them than you can avoid - enough said.
- It is said that the absence of alternatives clears the mind enormously - often you find in this succession area, like many other issues, that the deeper you get the more clear sometimes the best course of action becomes - the message here is to get deep enough into the thinking and planning such that the fog does indeed lift.

- Let the incoming family member follow the beat of their own drum re a trade, profession or career of some kind if they want to pursue this and complete same before coming home to the farm - it is generally very good for our children to have another string or strings to their bow - they could still have thirty odd years back on the home farm so some years in another field usually adds balance and is positive in a number of ways - it is not always workable but many cracking good farmers today didn't come home immediately.
- One of the best succession planning tools is to get some capital cash across to the non farming family members when they could really use it rather than when they are 60 years of age which is the norm. Even relatively small (in farming terms) lumps of capital cash moved across when that non farming family member is 25 years - 35 years of age and establishing a business, building a home, having a family and the like, could be enormously helpful and appreciated. It is one of those key areas that can help equalise the family members. In New Zealand terms the sale of forestry on farm has and is going to play a major role in this area over the next 20 years. Put this point in your memory banks because those of you who can cope with this have a real chance to help those non-farming family members early on.
- There are all sorts of financial instruments and packages pushed at farming re planning for succession. To a greater or lesser degree some of these can have a place, particularly if you start early on. In New Zealand usually any surplus cash is better spent on getting the property fully productive and once that stage has been reached then reducing debt becomes the key priority - once you are on top of these two areas usually 20 years has gone anyway, farming and the odd poor year being what they are. The key though is to start early and keep focused on your strategy and goals and reset them as required and keep your advisers looking over your shoulder - how you use your disposable cash will always be a critical issue.
- Build up your financial reserves - in a deregulated environment farmers need feed buffers, personal time buffers and financial buffers - this is all part and parcel of risk management. Once you have the farm where you want it production-wise and you have your interest debt servicing down to say 15% of your Gross Farm Income then build your financial reserves as hard as you can to - aim for reserves of 20% of you Gross Farm Income. Strong financial reserves help tremendously towards good succession planning.
- Don't be chained by your attitude and your own history of farm succession. What was right or accepted practice thirty years ago may have no relevance in today's world - on the other hand some of the should principles of farm succession have stood the test of time very well. Keep an open mind while going through the exercise.
- It is said that the greatest hazard in life is to risk nothing. The problem I find is you generally don't get a chance to practise farm succession planning - in the main you are on 'live' from day one. Top advice, plenty of communication with family and with advisers, planning early, being profitable, time and patience are your key farm succession tools - make sure you get them all out of your bag.

- Sound succession planning leads to retirement.
- Nothing, but nothing will be as important leading into and up to farm succession and retirement as being profitable - you should aim at real profitability in that prior ten year period - this is easy to say and hard to achieve but if you place high priority on succession and retirement then this is the main button to press and keep pressing. Cash and profits don't always go hand in hand - concentrate on your disposable cash - this really is a period to be gracious with people and ruthless with money. Last but not least, once you have sound advice, targets, plans, goals and productivity in place then believe in yourself - people who cannot believe in themselves cannot believe in anything else - place the bet on yourself.

## **SUCCESSION:THE COMMON THREADS**

<b>1.</b>	<b>Viability:</b>	<b>The Primary Issue</b>	
		<b>Affects</b>	<b>Timing</b> <b>Fairness</b> <b>Method</b>
<b>2.</b>	<b>Timing</b>	<b>Affects</b>	<b>Viability</b> <b>Fairness</b> <b>Method</b> <b>Communication</b>
<b>3.</b>	<b>Fairness</b>	<b>Affects</b>	<b>Viability</b> <b>Attitudes</b> <b>Method</b> <b>Communication</b> <b>Timing</b>
<b>4.</b>	<b>Flexibility</b>	<b>Affects</b>	<b>Timing</b> <b>Viability</b> <b>Fairness</b> <b>Ability</b> <b>Health</b>

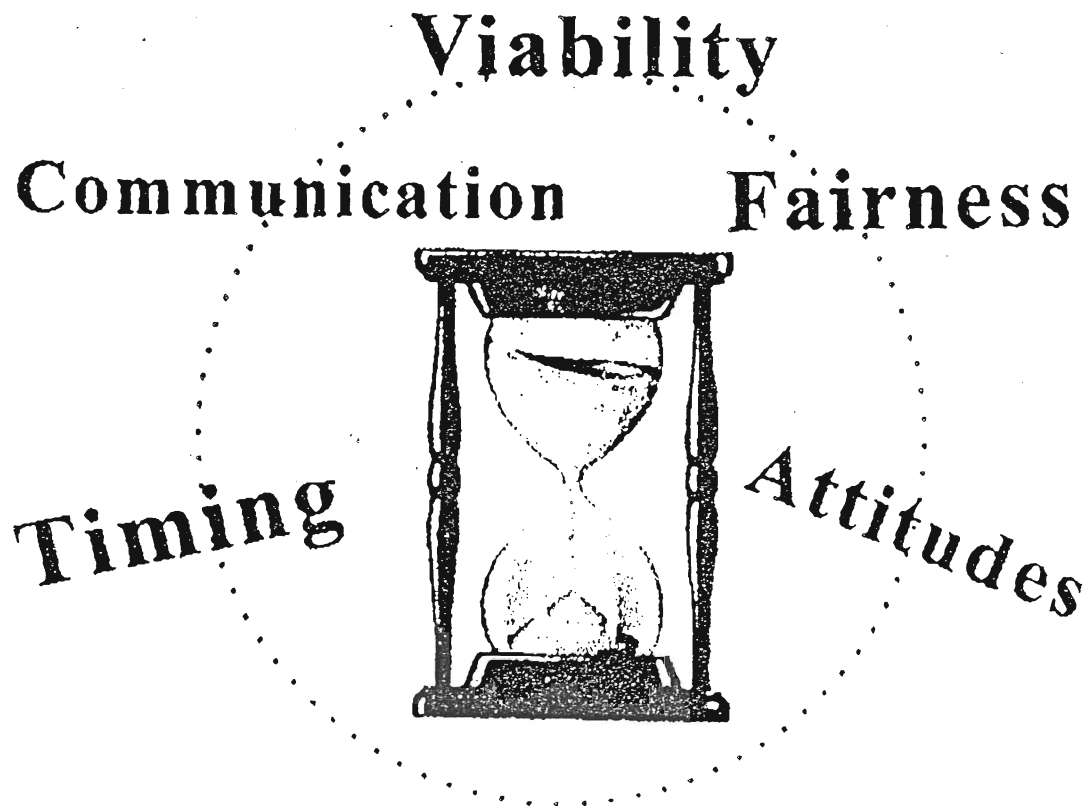
# Summary

Manage your business properly

Start funding for retirement early

Plan for succession

Think about it now



## **ACKNOWLEDGEMENTS**

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SOURCE: MAF Policy Technical Paper 93/16

**Farm Succession, Viability and Retirement  
Ten Case Studies from Canterbury  
by Hugh Eaton**

**SUMMARY OF FARM SUCCESSION CASE STUDY RESULTS**

Case Study	Area (ha)	Farm Type	Total Farm Assets	Retirement Assets	Parents' Income	Farm Profit 1994	Status Quo
One	106	Dairy	\$1,323,000	\$345,400	\$17,115	\$25,100	\$48,271
Two	350	Sheep, Bulls, Deer	\$1,138,000	\$1,547,000	\$37,133	\$32,348	-
Son	210	Sheep, Bulls, Deer	\$758,000	-	-	-	\$31,512
Three	324	Sheep, Bulls, Crop	\$1,577,000	\$1,182,000	\$25,143	\$22,273	\$45,053
Four	236	Sheep, Bulls, Deer	\$989,000	\$859,000	\$26,849	\$17,062	\$17,763
Five	202	Sheep	\$638,000	\$44,000	\$14,205	\$17,030	\$18,262
Six	661	Mixed	\$2,740,000	-	-	\$29,928	-
Parents	117	Grazing	\$300,000	\$570,000	\$54,255	-	\$1,650
Daughter	162	Sheep, Crop	\$680,000	-	-	-	\$32,337
Son 1	172	Bull beef	\$941,000	-	-	-	\$27,221
Son 2	210	Sheep, Cattle	\$766,000	-	-	-	\$16,113
Seven	210	Arable	\$1,101,108	\$1,170,000	\$26,931	\$15,351	\$32,844
Eight	144	Arable	\$1,120,000	\$1,128,000	\$23,965	\$18,607	\$54,734
Nine	368	Sheep	\$852,000	\$1,170,000	\$45,838	\$46,240	-
Son	328	Sheep	\$767,000	-	-	-	\$35,862
Ten	162	Sheep, Crop	\$700,000	\$260,500	\$19,100	\$11,028	\$22,538

NOTES

"Parents' Income" is the parents total long term cash income net of tax and superannuation surcharge

"Farm Profit 1994" is the budgeted NET CASH PROFIT after tax and drawings.

"Status Quo" is the CASH AVAILABLE FOR PROFIT AND DRAWINGS in a status quo position after succession.

## RESULTS AND DISCUSSION (See Summary Table)

### CASE STUDY FARM BACKGROUND

This paper used ten farms in Mid Canterbury as case studies in farm succession, selected by personal contact to provide as wide a range of farming types as possible.

### FARM TYPES

The farms range in size from 106ha to 661ha, and in location from the coast at 600mm rainfall to the foothills at over 1200mm rainfall and 450m altitude. Soil types ranged from light stony Lismore silts to heavy Lowcliffe soils and deep Gorge cropping soils.

Farming systems included dairying, intensive cropping, dry land sheep farming, bull beef, deer, beef breeding and mixed cropping with livestock.

One Canterbury farm type not included was extensive high country sheep breeding.

### FARM PURCHASE

The farms were purchased by the families as long ago as 1925 and as recently as 1991.

### FARM VALUES

Current market values of the farms were estimated informally, using recent sales information where possible. Livestock, plant and machinery were included to give total farm values of between \$638,000 and \$2.74 million.

### FAMILY DETAILS

#### *Family Members*

The immediate families of the case studies all consist of a husband, (in two cases recently married because of the death of the mother), wife at least one son and up to three daughters. All of the immediate family members are pakeha.

# CONCLUSIONS OF FARM SUCCESSION CASE STUDY RESULTS

- Succession in all the farm case studies involved passing on large capital assets valued at between \$638,000 and \$2.74 million.
- The farmers, with one exception, prefer the simple ownership structures of sole trader or partnership and are no longer so concerned with creating more complex structures to avoid income tax and death duties.
- The farmers' retirement plans vary widely, are flexible and depend largely on the intentions of the succeeding son. They ranged from retirement in the fifties to not retiring at all.
- All the case study farms, with one part exception, were to be passed on to sons not daughters.
- The farmers' attitude to succession was not that the family farm should be preserved at all costs, but that the estate should be conserved, the farm business should be viable and that it should be passed on with minimal disruption to the family.
- The process of farm transfer involves gradual passing on of labour, management decision, financial control occupation and ownership of the farm. The crucial time for the viability of the business and the living standard of the parents is when they must remove capital to set up a home for their retirement.
- All cases were examples of balancing the priorities of
  - a farm viability
  - b support for the parents in retirement, and
  - c fairness to other family members

It appears that viability wins, at the expense of other children who may inherit only the remains of the parents' estate on their deaths.

- The parents' assets on retirement vary enormously, from \$44,000 to \$1,547,000, depending on the degree to which they have passed ownership to the next generation. The size of the parents' assets bears little relation to their retirement income.
- The parents' estimated retirement income after tax ranges from \$14,000 to \$54,000. Both the farms where succession has been completed were among the three cases which fell below the chosen bench mark of \$22,800. Farmers may underestimate their need for income in retirement and come to depend on the goodwill of the child who has taken over their assets.

## APPENDIX 4

Abstract of Thesis submitted in fulfillment  
of the requirements for the degree of M.Ag.Sci.

### **MANAGING FARM SUCCESSION AND RETIREMENT;** The perspectives of Dairy Farmers and Advisers

by Kate Lynch

Contemporary literature, newspaper articles and seminars have focused on farm succession in recent times and have upheld the general belief that farm succession is a common and desired occurrence.

Farmers, from the lower North Island, who had 'retired' from dairy farming in the years 1990 - 1995 were interviewed in this quantitative study. Farmers defined farmer succession more widely than the transfer of a parcel of land from parent to child. Their definition of succession encompassed the transfer of farming skills and family equity from one generation to the next to support continued or new farming activity. Most farmers surveyed desired farm succession to occur but the incidence of farm succession was very low (6%).

Contemporary discussion about farm succession concentrates on means of achieving successful succession. This discussion highlights the issues of communication between all parties; advanced planning; fairness and / or equality to all offspring. The qualitative aspect of this study, however, showed that financial flexibility and economic stability are two factors which have greater influence in determining the success of farm succession, and suggest that these two factors determine whether succession will even be considered as an option at retirement.

Farmers inadvertently plan for succession by ensuring their farm remains financially viable and ensuring it has the financial flexibility to support the families of both the retiring and succeeding generations during the succession process. Only when a child shows a commitment to career in farming does planning for succession begin; and then most commonly informal planning processes are used. Interest by a child is more likely to be shown if the farm is economically viable and stable. Hence, the bequest motive and successful succession are interdependent factors.

The nature of planning and the role of advisers in farm succession management are studied and the case is argued for greater recognition of farmers' ability to informally plan for succession. The farmers described the role advisers play in their farm succession management decisions as 'sounding boards' and people who formally implement plans. However advisers do not perceive these roles of themselves. Advisers perceive greater involvement at all stages of farmers' planning process.

Key Words: Farm succession, management, informal planning, formal advice, financial flexibility, financial viability, economic stability.

## APPENDIX 5

### ESTATE PLANNING Source Duncan Cotterill, Barristers and Solicitors

Farming as an industry is strong on assets but weak on profits. Estate planning for retirement and farm succession is essential. In formulating an estate plan, thought should be given to the following matters:

- (a) Wills - up to date for all family members with Techniques such as 'Life Interests' and 'Leases for Life' to effectively distribute property.
- (b) Jointly owned Assets - avoiding frozen estate difficulties with joint bank accounts, tenancies in common etc.
- (c) Family Trusts - Immediate disposal of property to a Trustee pegging values, allows income division amongst different beneficiaries. Discretionary family trust allows flexibility.
- (d) Gifting - \$27,000 per annum without gift duty.
- (e) Matrimonial Property Act 1976 - equalise value of assets enabling spreading up of family estate planning.
- (f) Enduring Powers of Attorney - removes necessity for a Court Order.
- (g) Life Insurance - Pool of cash for immediate family needs.
- (h) Family Protection Act - fairness to all siblings.

## **"INSURING" FARM SUCCESSION**

The Family Protection Act and its greater use these days has caused many families to reassess their ability to settle the next generation on the family farm. The Act itself only reflects the expectations that society has for a fairer deal for all the family in the settlement of a person's wealth. For many, the financial hurdle of having to treat all children equally means that no attempt is made to settle the family farm in the next generation. The process of any settlement requires planning over a significant period of time - 10/20 years or more - and a number of strategies may be required to achieve the settlement objective. These may include:

- Sacrifices in personal living standards to achieve debt reduction, equity and off farm investment.
- Investment off the home farm to help settle non farming children.
- The early establishment of a Discretionary Trust that contains growth assets may facilitate family settlement (on an unequal basis).
- A conscious effort over the years to reduce external indebtedness.
- When the children are of age, family discussion and agreement on the form that Estate settlement should take.
- The use of life insurance.

Life insurance has its place in most succession planning programmes because firstly it establishes the discipline of saving (the earlier the better). Secondly, it covers a period of risk at a time when there is insufficient wealth to settle the parties, and thirdly, whole of life insurance, provides cash outside the farming enterprise and this cash can be extremely useful in achieving the initial objective of the settlement of children or alternatively, the settlement of a surviving spouse away from the farm. Life insurance secures the settlement arrangement and enables the parties to work and plan with confidence towards the common goal - The succession of the family farm to the next generation.

Clearly, any scheme must be affordable. Often the option of term insurance is taken, which is a cheaper alternative.