Talking about estate planning is often difficult and implementing an estate plan can be even harder. Farmers are unique in that there isn’t a distinct moment where they just walk out the door to retirement as someone in a regular wage earning job might do. Rather, farm families often need to think about how to transition the farm business to the next generation during a lifetime, as well as have an estate plan in place. There are options they can consider such as phasing out or transitioning to another generation; this workshop helps plan for that.

The “Evaluating Your Estate Plan” workshop will answer estate planning questions and help prepare you for future farm transitions and estate planning. “The program applies to everyone – town and country, families, couples and individuals,” according to Melissa O’Rourke, Iowa State University Extension farm and agribusiness management specialist and one of the speakers at the event. O’Rourke is an attorney experienced in agricultural law and estate planning. Kelvin Leibold, extension farm and agribusiness management specialist, will be the other featured speaker at the workshop. Leibold joined ISU Extension in 1987 and has vast experience in working with agricultural clients in farm and business planning.

The one-day workshop will discuss the language of estate planning, gift, estate and inheritance taxes, calculating retirement costs and many other areas vital to creating a good estate plan. If you are confused on how to build a plan for transferring farm assets or unsure what options are best for your farm operation and family, continued on page 2

Handbook updates
For those of you subscribing to the handbook, the following new updates are included.

Estimated Costs of Crop Production in Iowa-2012 — A1-20 (13 pages)
Lean Hog Basis — B2-41 (1 page)
Live Cattle Basis — B2-42 (1 page)
Farmland Value Survey (Iowa State University) — C2-70 (5 pages)
Please add these files to your handbook and remove the out-of-date material.
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Ag Decision Maker is compiled by extension ag economists
Ann Johanns, aholste@iastate.edu
extension program specialist
you should attend this workshop. “We’re really excited about this workshop because it doesn’t just stop at providing valuable information for anyone concerned about estate and transition plans,” says O’Rourke. “Everyone will participate in a hands-on analysis and discussion of case studies that will help folks apply the information to their own situations.”

ISU Extension and Outreach is offering the workshop at five locations in February. Registration at each site starts at 9 a.m. with adjournment at 4 p.m. Advance registration is required as space is limited. Cost of the Evaluating Your Estate Plan workshop is $50 per person and includes lunch. To pre-register call the county extension office of the preferred site listed on this page. For more information, visit the Ag Decision Maker website, http://www.extension.iastate.edu/agdm/info/meetings.html.

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<td>February 7</td>
<td>Iowa Falls&lt;br&gt;Hardin County Extension Office&lt;br&gt;To register call – 641-648-4850</td>
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<td>February 15</td>
<td>Le Mars&lt;br&gt;Plymouth County Extension Office&lt;br&gt;To register call – 712-546-7835</td>
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<td>February 16</td>
<td>Fayette&lt;br&gt;Upper Iowa University, Student Center, Ballroom&lt;br&gt;To register call – 563-425-3331</td>
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<td>February 22</td>
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2011 Farmland value survey shows historic $6,708 statewide average

by Mike Duffy, extension economist, 515-294-6160, mduffy@iastate.edu

Average Iowa farmland value is estimated to be $6,708 per acre, an increase of 32.5 percent from 2010, according to results of the Iowa Land Value Survey conducted in November. This is the highest percentage increase ever recorded by the Iowa State University annual survey. The increase matches results of other recent surveys of Iowa farmland value — the Chicago Federal Reserve Bank’s estimated 31 percent increase in Iowa land values and the Iowa Chapter of the Realtors Land Institute’s 12.9 percent increase estimated for six months of 2011. The 2011 values are historical peaks.

The 2011 land value survey covers one of the most remarkable years in Iowa land value history. This is the highest percentage increase recorded by the survey, and the average land value of $6,708 per acre, when adjusted for inflation, is at an all-time high. The previous inflation adjusted high was in 1979.

Scott County, with an estimated $9,223 average value for all farmland, saw the highest percentage increase and highest increase in value, 37.7 percent and $2,524 respectively, of the 99 Iowa counties. However, O’Brien County farmland estimates of $9,513 were the highest average county values recorded by the Iowa Land Value Survey. The northwest crop reporting district, which includes O’Brien County, reported the highest land values at $8,338, an increase of $1,983 (31.2 percent) from 2010.
This rate of increase in 2011 has led to concerns that farmland may be the next speculative bubble. Some people feel farmers are setting themselves up for a fall similar to the 1980s. Without a doubt, it’s an interesting time and something to watch, but it isn’t a time to panic.

Some of the causes for the current increase in farmland values and the reactions is helpful in assessing the situation. Farmland values are highly correlated with gross farm income. As gross farm income increases, so will land values. In 2005, corn prices averaged $1.94 per bushel in Iowa. The preliminary estimated price for November 2011 is $6.05. Soybean prices changed from $5.54 to $11.40 over the same period.

There has been considerable variation in commodity prices over the past few years, but net farm income has increased substantially and is projected to increase even more for 2011. This increase in income has been the primary cause for the increase in farmland values, but not the only one.

There are other causes for the increase. Interest rates are at the lowest level in recent memory. Farmland purchased by investors went from 18 percent in 1989 to 39 percent of purchases in 2005, but investor purchases decreased this year to 22 percent.

Farmland values should remain strong for the next several months at least. Beyond that there is a fair degree of uncertainty with respect to whether land values can maintain their current levels.

**Overview of 2011 Iowa land values**

While the highest county land values were reported in O’Brien County, Decatur County had the distinction for the second year in a row as having the lowest reported land value, $2,721 per acre, and the lowest dollar increase, $636. Washington County had the lowest percentage increase, 28.2 percent, with a reported $7,166 average value.

Low grade land in the state averaged $4,257 per acre and showed a 26.8 percent increase or $900 per acre, while medium grade land averaged $6,256 per acre; high grade land averaged $8,198 per acre. The lowest land value and smallest percentage increase were estimated in the south central crop reporting district, $3,407 and 26.7 percent respectively. The southwest crop reporting district reported a 36.5 percent increase, the highest district percentage reported.

Maps showing 2011 values, percentage change and comparisons to 2010 data and additional information are available at www.extension.iastate.edu/topic/landvalue. A Decision Tool showing historical state, district and county survey results is available on Ag Decision Maker with *Information File C2-70, Farmland Value Survey*.

The Iowa Land Value Survey was initiated in 1941 and is sponsored by the Iowa Agriculture and Home Economics Experiment Station, Iowa State University. Only the state average and the district averages are based directly on the Iowa State survey data. The county estimates are derived using a procedure that combines survey results with data from the U.S. Census of Agriculture.

The survey is based on reports by licensed real estate brokers and selected individuals considered knowledgeable of land market conditions. The 2011 survey is based on 487 usable responses providing 642 county land value estimates. The survey is intended to provide information on general land value trends, geographical land price relationships and factors influencing the Iowa land market. It is not intended to provide an estimate for any particular piece of property.
An article published in a recent issue of an agricultural publication about “dynasty trusts” merits a response. While such trusts may offer some attractive short-term features, the probable long-term consequences are sobering. Indeed, from both a policy perspective and from the standpoint of the best long-term interests of generations to come, it has been the conclusion of this author that setting up such a trust would likely produce enormously disadvantageous results if widely used. Indeed, it is difficult to conceive of a plan that would be more disadvantageous to future generations.

Here are the arguments supporting that conclusion.

The rule against perpetuities
The concept of “dynasty trusts” that can last forever is dependent upon repeal of the Rule Against Perpetuities which has been a part of the common law heritage for more than three centuries. The Rule, as it is commonly known, had its origins in the Duke of Norfolk’s case in the late 17th Century. The case involved disagreements among the heirs of the Duke of Norfolk over the propriety of leaving property in successive life estates. The court believed that it was wrong to tie up property beyond the lives of persons living at the time the property was conveyed, although the exact period for which such transfers should be permitted was not determined until roughly 150 years later.

As followed at common law (and the statutory versions that followed the common law) in the United States, the Rule established a limit on holding property in trust or otherwise precluding property from vesting, measured by a class of lives in being plus 21 years. That usually has permitted the life of a trust to last for 100 years, but usually not more than about 120 years. About half of the states adopted the Uniform Statutory Rule Against Perpetuities (USRAP) under which an interest in property was valid if it would necessarily vest or fail within lives in being plus 21 years (basically the common law rule) or the property actually vested within 90 years of creation.

However, commencing about 30 years ago, a trend developed of repealing the Rule and about half the states have done so.

Number of beneficiaries
The problems associated with so-called “dynasty” trusts are principally long-term in nature and involve significant policy issues. First, the trusts are irrevocable – they generally cannot be revoked or amended. Most think in terms of a couple of generations. But let’s fast forward to the year 2511, 500 years from now. These trusts are set up to last forever. Not just 500 years or 1,000 years but forever. What started out in 2011 as a couple with two children would, with normal fertility levels, have increased to 3.4 million beneficiaries in 500 years. After only 150 years, the trust would be expected to have around 2500 beneficiaries.

The beneficiaries would by then be likely to view their interest in the trust much as the way the Social Security Trust Fund is viewed today – very distant and with virtually no influence over the trust or its investments. It would fundamentally alter the way individuals and family view property – as some distant and largely unresponsive fund. Getting agreement to amend the trust would be almost impossible.

Beneficiaries still farming?
Although certainly not limited to owning farmland, for those owning farmland the view of many who have set up such trusts is that successors within the family will continue to farm the land (or at least to own the land as landlords). Is that a realistic
assumption? We don’t know what technology lies ahead but just in the past 80 years the number of farmers has dwindled sharply. It seems a safe bet that the future will see more of the same. There is no assurance in 500 years that any of the successors within the family would have the remotest interest in farming.

Would the land in question even be used for farming in 500 years? Or would it be covered over with concrete and blacktop as a city? Or a huge regional airport? Would the family successors who might be interested in farming be working in the shadow of a skyscraper?

Past generations have been able to assess their interests and abilities and strike out in areas hardly dreamed of by their parents, taking their share of the family wealth with them and under their control.

**What about access to assets?**

Just ponder for a moment what the chances of acquiring land (or other assets) today would be if the wealthy in 1011 had frozen all of the land in trust? It has been an article of faith in this country that if one works hard, saves their money, some day they can acquire property. That would be substantially curbed if dynasty trusts were to become widespread.

**Who would be in control of the land?**

Most dynasty trusts are set up with a bank or trust company as trustee. That might involve trust administration in places like Cedar Rapids or Peoria or even Indianapolis. But the way banking is changing and consolidating, the trust might end up being administered in Beijing or Singapore or some other distant place.

It would place enormous economic power in the hands of the corporate trustees with little accountability. There is no secret why banks and trust companies have been the big advocates for dynasty trusts. That whistling sound overhead is money and other assets on the way to South Dakota, Alaska and the other states that have repealed the Rule. Moreover, the fees charged are largely unregulated.

**Reduced economic growth**

It is well known that corporate trustees tend to be cautious and conservative, not wanting to be surcharged for mistakes in judgment in handling a trust. With the trust assets largely shielded from market forces, widespread ownership of assets in such trusts would almost certainly reduce the rate of economic growth in the country. It is an article of economic faith that economic growth is maximized if resources are fully subject to the forces and pressures of the market and are routed to where the economic return is the greatest.

**The administration’s position**

The current Administration (principally originating in the Department of the Treasury) in February 2011 published the “green book” which outlined a proposal to limit the duration of perpetual or “dynastic” trusts to a maximum of 90 years at which time the exemption of generation skipping would expire. Technically, the generation skipping tax exclusion allocated to the trust would terminate on the 90th anniversary of the creation of the trust. That seems to be sufficiently long to accommodate the usual objectives of trustors other than to create a perpetual trust.

**The key question**

Do we want to place our economic system in jeopardy with such a short-sighted move as to see a substantial share of the country’s wealth tied up in trust forever? Individuals emigrating to this country a century or two ago did so in large measure because of the promise of economic opportunity. The risks to our system of property rights and access to assets is too precious to sacrifice at the altar of rescuing banks and trust companies from the competition emanating from the 20 or so states that have been foolish enough to repeal the Rule Against Perpetuities. That rule was formulated in the 17th Century to prevent land from being tied up forever.
As legal philosophers have opined, “Let’s not let the dead hand of the past control the present.” The author of that quote, Professor Lewis Simes, an esteemed legal philosopher, stated, in articulating two reasons for limits on how long property should be able to be tied up in trust (or otherwise), “First, the Rule Against Perpetuities strikes a fair balance between the desires of members of the present generation, and similar desires of succeeding generations, to do what they wish with the property which they enjoy. . . . In a sense, this is a policy of alienability, but it is not alienability for productivity. It is alienability to enable people to do what they please at death with the property they enjoy during life. . . . But, in my opinion, a second and even more important reason for the [Rule Against Perpetuities] is this. It is socially desirable that the wealth of the world be controlled by living members and not by the dead.”