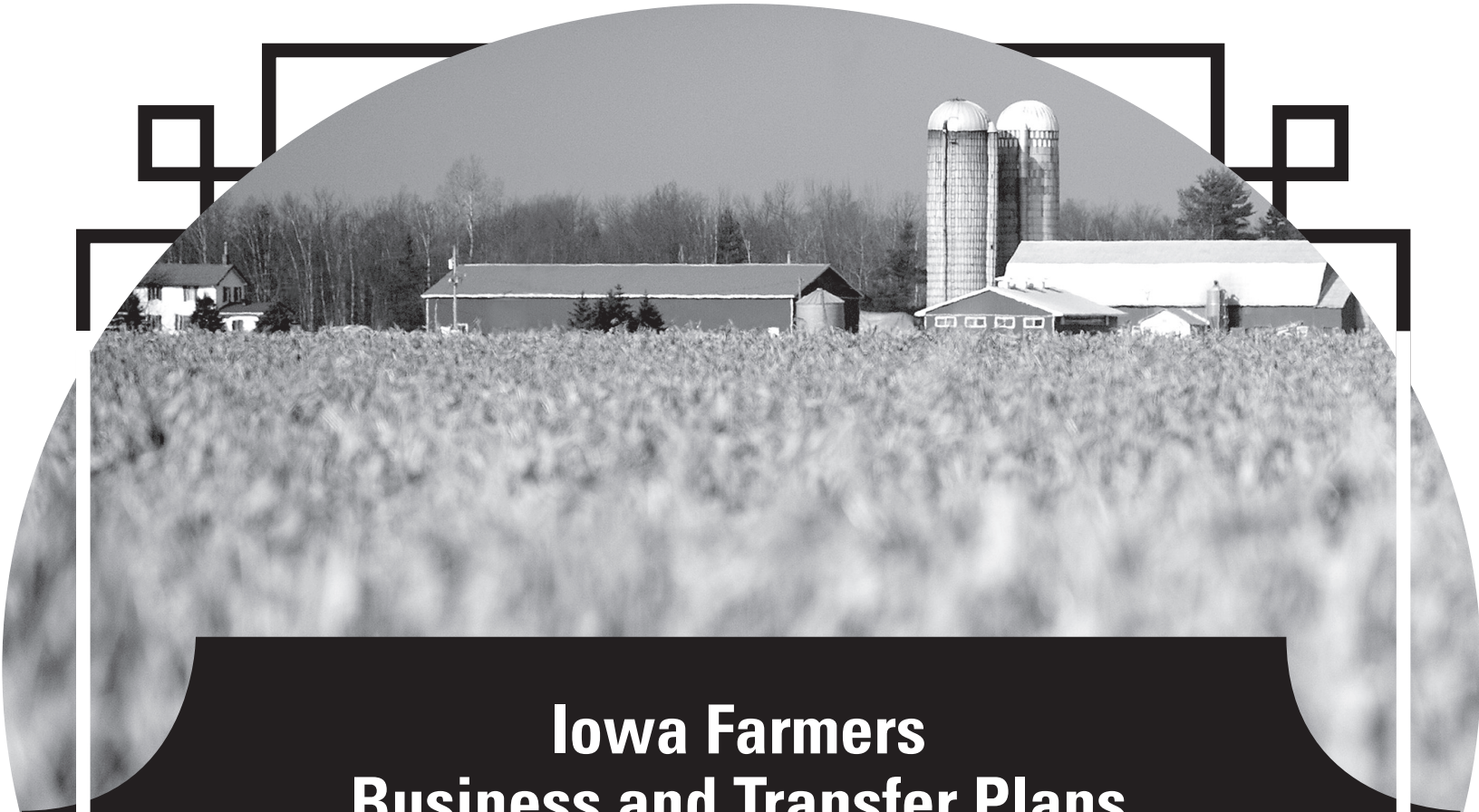

Iowa Farmers Business and Transfer Plans

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Executive Summary

Background

During the past 55 years the number of Iowa farms has decreased from 206,000 to 89,000. While the numbers of farms decreased, the average size of the farms has steadily increased. The average age of farmers has also been increasing with two-thirds of Iowa farmers over 50. The increase in the average age of farmers is a result of minimal incentives to encourage young farmers to enter into the profession and reluctance on the part of existing farmers to retire. In order to keep Iowa's agricultural economy strong there must be incentives to encourage new enrants to enter agriculture. Transferring the farm from one generation to the next is one of the most vital stages to ensuring the longevity of the farm business. The prime objective of many farm family businesses is the same as non-farm businesses – to maintain control and pass on a secure and sound business to the next generation (Lobley, et al. 2002). However, there are some differences as well. While only slightly more than 20 percent of farmers indicate they will retire, more than 50 percent of business owners said they would retire some day. Since farmers tend not to retire, younger generations either have to work for their parents for many years before taking over the farm or start their own farm business. This structure discourages many possible new farmers from entering the profession. The complexity of farm transfers is due to three conflicting objectives: maintaining a viable farm business for subsequent generations, fair and equal treatment of family members, and the retirement provision of the current operator (Barclay, et al. 2005).

Objectives

The goal of this study is to provide a comparison of the attitudes and motives behind farm succession. The hope is that a comparison between the data obtained in 2006 and 2000 in the state of Iowa will provide insight into the mechanics of farm business transfers. Unlike most farm transfer studies the focus of this study is on the transfer of intangible assets rather than physical assets. For this study a survey was mailed to 2,847 farm families throughout the state of Iowa. The response rate to the survey was 34.14 percent providing a sample of 972 farm families.

Research

Outcomes Over the years the average size of farms has continually increased as the number of farms has decreased. According to the Census of Agriculture the number of farms in the United States fell rapidly from 1935 to 1970. In the 80s and 90s the declining pace of farm numbers slowed. In 2002, farms averaged 441 acres compared to 155 acres in 1935. While the yearly increase has slowed, the average size of farms is still increasing more than an acre a year, and according to the USDA National Agriculture Statistics Service, the average size of farms was up to 446 acres. Although there has been a shift toward larger farms, the traditional family farm structure is still predominant. An overwhelming majority of Iowa farms are still sole proprietorships with at least one family member working full time on the farm. Less than 5 percent of farms had a full-time employee and only a little more than 10 percent had a part-time employee. Farming is the primary occupation of only 54 percent of respondents, yet 60 percent of respondents said they worked full time on the farm.

Retirement

Attitudes about retirement vary widely among farmers. According to the survey, over 30 percent of farmers indicated they would never retire, while only 23 percent responded that they would retire. A majority of farmers said they would semi-retire, meaning they would still provide some managerial control or labor to the farm. In 2000 35 percent of respondents indicated they would retire, a 12 percent drop when compared to 2006. Also, more farmers in 2006 claimed they would never retire than farmers in 2000. Compared to surveys conducted in other states, Iowa has a lower percentage of farmers indicating they will never retire. However, compared to international studies, Iowa has more farmers who indicated they will never retire. Japan is the only country with a greater percentage of farmers who indicated they were never going to retire (44.5 percent). Over 50 percent of respondents who indicated they would retire claimed they would not be moving when they do. Of those who are moving, 66 percent said they would be moving less than 10 miles from the farm and only 11 percent said they would be moving more than 50 miles away. The average age of retirement, according to the 2006 survey, is 67, which is comparable to the 2000 survey in which respondents average age of retirement was 66.

Retirement Income

Nearly 50 percent of respondents indicated they expected to receive some retirement income from Social Security while less than 15 percent indicated they would generate retirement income by selling farm assets, farmland, or livestock. However, the percent of retirement income that respondents believed they would rely on to come from Social Security was only 25 percent, with most farmers relying on income from the farm to provide more of their retirement income. Other common responses to the question of where retirement income would come from were: income from this farm (41 percent), private retirement account (36 percent), other investments (28 percent), sales of other farm assets (14 percent), sales of livestock (10 percent), sales of land (8 percent), other sources (5 percent), and sales of other property (4 percent).

Identification of a Successor

Only 27 percent of farmers have identified their successor, and age has a major impact on this statistic; operators aged 80 to 89 had a successor identified in slightly more than 50 percent of cases. Gross sales and size of farm were also significant in determining whether a farmer would identify a successor. Farmers who had gross sales in excess of $250,000 were roughly 10 percent more likely to have identified a successor. Also, once the size of the farm reached 1,000 acres, the likelihood that a successor had been identified jumped from less than 30 percent up to more than 45 percent.

Gender of Successor

Sixty-four percent of identified successors were sons of the operator and 16 percent were daughters of the operator. According to the 2000 survey, sons made up 80 percent of the successors and daughters only six percent. The 2006 survey revealed that while sons were still the dominant successor, the percent of farmers who indicated their daughters were the successor rose to 16 percent. In 2006 sons-in-law comprised six percent of successors, daughters-in-law were less than one percent, the final 13 percent of successors included several other groups including: siblings, nephews, neighbors, cousins, grandchildren, wives, and young farmers in the area.

Discussion of Retirement

Over 45 percent of respondents who had indicated they would either retire or semi-retire said they had not talked to anyone about retirement, which is an increase compared to the 2000 survey when less than 40 percent said they had talked to no one. Most of those who have discussed retirement had done so with their family (46 percent), followed by accountants (19 percent), lawyers (17 percent), bankers (8 percent), and farm consultants (3 percent).

Succession Process

When people talk about farm succession, they instinctively think of mechanisms such as wills and trusts to pass down the farmland and assets. However, to ensure the strength of the family farm when it is passed from one operator to another, more than physical assets should be passed on. Intangible assets such as management and marketing skills should be passed on as well. According to the respondents who did have a successor identified, the most common task handed over fully to the successor was the management of livestock. The most common tasks held onto by the current operator were deciding when to pay bills, identifying sources and negotiating loans, and keeping farm records. Traditionally, throughout all the surveys the last skills handed on to the successor were negotiating loans/financing and deciding when to pay bills.

Chapter 1: Introduction

1.1 Introduction

One of the greatest concerns for a family farm is the transfer of the farm from one generation to the next. This process can create both opportunities and constraints on the sustainability of the farm business that other non-farm businesses rarely experience. (Tually 2001). Family farms are unique because the farm is not only the place of business for the family but also the place of residence and family tradition. When one part of the family farm struggles, it has an impact on the entire business. While the amount of assets that are to be transferred continues to grow and the means to transfer them continually get more complicated, operators often overlook the importance of transferring intangible assets. The importance of transferring a farm business from one generation to the next is important for that family. Moreover, in Iowa, where agriculture contributes greatly to the rural economy, the entire state depends on the sustainability of family farms.

Transferring the family farm involves three inter-related processes: inheritance, retirement, and succession (Errington, 1998). The legal transfer of assets from one generation to the next is identified as inheritance. There are many assets transferred when a farm is inherited including: equipment, farm infrastructure (buildings, barns, grain storage), livestock, and most importantly land. Land has always held a sense of independence and power throughout history. Often farmland has been in a family for several generations and carries with it a sense of pride and provides a link to ancestors. This deep appreciation for the past and for the living environment the farm provides makes land the most important physical asset of the farm business. Farm assets also include things such as equipment, livestock, and grain handling infrastructure. Retirement is the exit of the existing farm operator from the managerial control and/or providing manual labor for the farm operation. Succession refers to the transfer of managerial control over the use of the farm assets (Errington, 1998).

Succession is a process that often occurs over a long period of time with more and more functions being passed on over time. The actual process of succession is complicated and gradual. From the birth of a successor, the farm operator begins transferring managerial and decision-making responsibilities (Barclay, et al. 2005). The three components of transferring labor, management and land are transferred gradually and simultaneously with incremental steps over decades when both generations are ready and willing to take over part of the farm business (Crispell, et al. 1992). Succession is considered complete when the older generations transfer title of the land to the successors and relinquish any duties both managerial and labor related (Barclay, et al. 2005). There are some examples of succession in which title to the land is not transferred. In France, title may pass from grandfather to grandson while the father in between may have farmed his entire life without ever owning the land. Unfortunately, there are many struggles during this often strenuous phase of the farm business. First, there is a struggle to ensure the equal treatment of all members of the family, not just the successor or successors. Also, the older generation must make sure they are prepared for retirement both mentally and financially. Usually, income received from the farm business is reinvested back into the farm with little regard for the future. The success of the transfer process depends on sustaining the farm business as well as ensuring the retiring generation is prepared for retirement.

The goal of the current study is to identify any trends and patterns that can be seen in the succession process of Iowa farms. Also, this study will provide an opportunity to look at the differences and similarities between Iowa family farms in 2000 and 2006. Ideally this project will provide insight into the aspects of the farm succession process that need more attention and will help the Beginning Farmer's Center determine what areas of farm succession education need to be improved.

1.2 International Farm Transfers Study

This report is based on a study that originated in the United Kingdom in 1990. Professor Andrew Errington of the University of Plymouth in conjunction with the Centre for Agricultural Strategy at the University of Reading developed the first Farm Succession Survey in 1991. Since the original study several more studies have been completed – 1993 France, 1997 Canada: Ontario and Quebec, 1997 England, 2000 Iowa, 2001 Japan, 2001 Virginia, 2003 Germany, 2003 Poland, 2003 Austria, 2004 Australia, 2005 Pennsylvania, New Jersey, and North Carolina, and 2006 Iowa. The primary objectives of these collaborations are to:

- Confirm the elements of farm succession plans
- Establish whether or not there is an identifiable career ladder in farm business successions
- Determine the educational needs of farm business owners
- Compare the patterns of succession between countries and years
- Create a data archive that is available for research collaborations

1.3 Objectives of the Present Study

This study is a replication of the Farm Transfers Survey in the state of Iowa. This project sought to compare the current study with the study conducted in 2000 to determine if there are observable trends in farm succession, retirement, and career progression. By comparing the same study completed six years apart, the hope is that any emerging trends will provide insight into the farm succession process and the progression of successors as they take over the farming operation. Comparing this study with those done in different parts of the world will identify areas of similarity as well as differences between Iowa and other states or nations.

Specific Goals:

- Conduct an International Farm Transfers Study with farmers across Iowa.
- Observe trends and patterns in farm succession, retirement, career entry, profiles of successors, and compare them to the 2000 study performed in Iowa as well as previous international studies.
- Determine what has and has not worked and whether the current educational system is accomplishing the goals and desires that are sought.
- Identify ways to improve the current system of educating farmers on the importance of succession management.

1.4 Structure of the Report

Chapter 2 will provide an international review of literature on the subject of farm succession, retirement, and inheritance. In Chapter 3, the methodology of the report will be explained to provide an understanding of how the current study was conducted. Chapter 4 presents the data received from the survey as well as analysis of the findings. When international data was available and helpful, it was also included in the analysis. In Chapter 5, conclusions are made regarding the reasons why farm succession creates issues for farmers. Also, suggestions and recommendations are made to help farmers as well as policy makers understand how some of the problems can be remedied.

Chapter 2: Review of Literature

This chapter will review literature from past International Farm Transfers studies. The review of past literature provides a better understanding of the terms used throughout this report and the complicated process of transferring a farm business.

2.1 Retirement

The term retirement conjures up images of sandy Florida beaches and RV trips out to see the grandkids. However, retirement to a farmer can mean something entirely different from the traditional definition. More than 30 percent of farm business owners in this survey indicated they don't plan to retire while only 23 percent said they would retire. This trend is not specific to Iowa. In every U.S. state where this survey was conducted, more than 30 percent of respondents said they would never retire. Accompanying the question of whether an operator would or would not retire/semi-retire were these descriptions (which only appeared in 2006 Iowa survey):

- ***Retire*** you will provide neither managerial control nor labor to the farm.
- ***Semi-retire*** you will provide some managerial control and/or labor to the farm.
- ***Never retire*** you will maintain full managerial control and provide some labor to the farm.

Roslyn Foskey (2002) identified a similar pattern evident in Australian farm families: retirement in farming, retirement from farming, and retirement to farming.

- ***Retirement in farming:*** This is similar to semi-retirement in that the farm operator typically remains living on the farm and supplies management, labor, or both to the farming operation. Problems can arise from this situation due to confusion over roles, duties, and responsibilities of the owning generation and the successor generation. Retirement from farming: The operator chooses to leave the farm completely, supplying neither management control nor labor to the farm operation. This can occur gradually with the farm operator selling off land over time or renting land to the successor or to another operator. In this situation the land can be seen as a type of retirement fund providing income through the sale or rental of land.
- ***Retirement to farming***: A not uncommon occurrence to both in Australia and the United States is the retirement farming. In this situation, a farm operator enters into farming later in life after retiring from a full-time job, or, as the farm grows and becomes sufficient, the operator can afford to leave an off-farm occupation.

2.2 Succession and Inheritance

Succession is a very complex process that often takes several years and stages before it is complete (Crispell 1996). Farm family business succession exhibits several unique traits. From the time a possible successor is born into a family, the process begins. As a child the successor begins receiving knowledge and training that eventually leads to a transfer of managerial and decision-making responsibilities. If the successor isn't a relative of the operator, the transfer usually occurs in a shorter amount of time.

According to Hutson (1987) there are four stages to the succession process. The first stage is signified when the successor finishes his/her education process and begins full-time employment on the farm. Often during this stage there is a period of conflict as the successor attempts to assert his/her own set of values and beliefs.

In the second stage, the primary operator and successor work to maximize the output of the farm and expand the farm operation. Throughout this stage several decisions must be made with regard to supporting the successor – should the farm expand or should separate land be purchased as a holding for the successor. The successor will have an impact on financial, technical, and investment concerns. Although both the operator and successor may be working full time on the farm, the operator may be under more financial pressure and still working as hard as he/she was early in the succession process (Hutson 1987).

In the third stage the successor becomes more responsible for management of the farm operation. "The sharing of authority and responsibility during this stage can promote a strong partnership founded upon mutual trust and understanding" (Coughenour and Kowalski 1977). As the successor gets older, he/she becomes more independent and the parents lose some of their parental control. A spouse of the successor may feel like an outsider, often being left out of conversations about the farm operation (Craig and Killen 1984).

The fourth stage is signified by the retirement of the operator and control of the farm handed over to the successor. While the older generation may relinquish managerial control, they often retain ownership of at least some of the farmland until death, ensuring retirement income and some measure of control (Hutson 1987).

Other studies have described several patterns of succession and transfer of management from the older generation to the younger. One study defined four general patterns of succession including: standby holding, separate enterprise, partnership, and farmer's boy (Gasson and Errington 1993).

- ***Standby Holding:*** The successor is set up on his/her own farm allowing him/her the opportunity to develop managerial skills. Equipment is often shared but the successor is independent financially and managerially from his/her father.
- ***Separate Enterprise:*** Some farms have the ability to develop a separate enterprise for the successor. Such enterprises could include a separate/new line of livestock or a farm contracting business. The successor can develop his/her own management and decision-making skills that can be used when he/she is farming alongside the older generation.
- ***Partnership:*** This type of relationship can be formally cemented and allows shared responsibility between both generations.
- ***Farmer's Boy:*** The successor spends years working alongside the older generation without having much involvement in decision making. Usually the successor is simply a supply of labor to the farming operation. Consequently, the successor fails to develop managerial skills necessary to run a farm operation. The successor's reward may be the eventual ownership of the farming operation.

Two further categories of successors have been identified as: those over the age of 16 who are in full-time education, and those who take a "professional detour" prior to taking over the family farm (Errington and Lobley 2002). A professional detour includes working on another farm, working at an off-farm job, or traveling. A successor may go from one category to another. The successful transfer of a farm depends on preparing the successor for the retirement of the principle farm operator and the decision on what pattern to follow will affect how the transfer is made.

2.3 Rural Ideology

Farming is more than a job; it is a way of life. Traditionally the occupation of farming is a male dominated occupation with most of the labor supplied by men. However, according to respondents of the 2006 survey, 16 percent of identified successors were daughters of the current operator, an increase of 10 percent since 2000. Historically, the dominant form of inheritance has been primogeniture, wherein the first-born male child is generally the heir. However, according to the respondents, most planned to divide the assets up equally among their children. When more than one child wishes to farm, arrangements have to be made to increase the size of the farm to support more than one family (Barclay, Foskey, and Reeve 2005). According to a study done in Australia, most respondents believe that a successful farming operation is one in which the farm is passed on to the next generation (Kaine et al. 1997).

2.3.1 Attitudes toward Retirement

Retirement among farmers is less likely to be tied directly to age and more likely due to the farmer's health. Retiring from farming is often avoided until ill health requires the farmer to exit the industry (Barclay, Foskey, and Reeve 2005). As farming has been described as a way of life, not just an occupation, retirement is seen as not only a loss of occupation but also a loss of a way of life. The transition into retirement is often accompanied by a grieving process. The grieving process includes grief for loss of place, identity, status, and community (Foskey 2002). The reluctance to fully retire may be seen in the increase of operators who plan to semi-retire. Semi-retirement provides the best of both worlds, maintaining the way of life for the current operator while giving the successor the ability to start taking over the farming operation.

2.4 International Farm Transfers Studies

The following represents a comparative view of findings from International Farm Transfers Studies performed in: England (Errington and Tranter 1991; Gasson et al. 1998), Quebec and Ontario (Errington 1998), Iowa (Baker, Duffy, and Lamberti 2001), Virginia (VDACS 2002), France (Errington et al. 1995), Japan (Errington and Uchiyama 2003; Uchiyama et al. 2004), Australia (Barclay, Foskey, and Reeve 2005), Pennsylvania and New Jersey (Baker and Hensley 2005).

2.4.1 Overview

The goal of the International Farm Transfers Studies is to examine the process of succession and the transfer of decision-making and managerial skills from one generation to the next. Most studies on farm succession focus on the transfer of physical assets, often overlooking the importance of the successful transfer of intangible assets. The International Farm Transfers Studies highlight patterns in the transfer of skills and knowledge between countries. To date, studies have been conducted in England, France, Ontario, Quebec, Iowa, Virginia, North Carolina, Pennsylvania, California, Japan, Germany, Poland, Switzerland, Slovakia, and Australia.

2.4.2 Succession

The first step of transferring a farm from one generation to the next is the identification of a successor. The international studies attempted to compare this critical stage. According to international data, as the age of a farmer increased, the likelihood that the farmer had identified a successor also increased. Farmers in France are on average 10 years younger than their counterparts in other nations except in Quebec where farmers averaged 6 years younger than in other locations.

The greatest percentages of farmers who have identified a successor were located in England (52.8 percent) and Japan (49.8 percent) followed by Quebec (42.1 percent) and Ontario (39.8 percent). French and Iowa farmers were the least likely to have identified a successor (Barclay, Foskey, and Reeve 2005). In Virginia, where the average age of farmers was 60, the percent of farmers who have identified a successor was only 30 percent. The past studies have also shown that size of farms and identification of a successor are also linked. The larger the farm, the more likely a successor was identified. International Studies have also shown that the son is the most likely successor in every area of the globe. Several studies showed that less than 10 percent of farmers had identified daughters as a potential successor including only 6 percent in Iowa in 2000. Respondents in the 2006 survey were an exception to this general trend, in that 16 percent of respondents had identified their daughters as the potential successor.

2.4.3 Retirement

International Studies asked respondents whether they intended to retire, semi-retire, or never retire. Past studies have shown American farmers as well as Japanese farmers were less likely to semi-retire than their international counterparts. According to the studies, the identification of a successor was linked to the decision to retire/semi-retire – as the number of respondents who plan to retire/semi-retire increases so does the likelihood that a successor had been identified. On average, farmers in America and Japan were more likely to never retire while those throughout Europe and Canada were more likely to retire than never retire. The retirement age among European and Canadian farmers was also significantly less than those in America and Japan.

2.4.4 Retirement Discussions

Roughly half of the respondents in Canada and the United States who planned to retire had discussed retirement with their family while considerably fewer respondents in England (24 percent) and Japan (32 percent) had (Barclay, Foskey, and Reeve 2005). Next to a farmer's family, accountants are the people farmers are most likely to talk to about their retirement. Generally, retirement discussions increase once a successor has been identified (Uchiyama et al.). Several past studies also showed the trend toward increased discussions when a successor had been identified versus those without a successor.

Table 2.1 Percent of farmers who have discussed retirement

	Successor Identified	No Successor Identified
Japan	35.9%	27.3%
Iowa	62.8%	47.7%
Virginia	77.6%	64.6%
Ontario	64.4%	64.4%
Quebec	62.4%	47.9%

2.4.5 Successors

The International Farm Transfers Study also analyzed successor profiles and the path that they commonly take prior to taking over the farm operation. Successors from Virginia and England were more likely to be involved in off-farm employment while a high percentage of successors in Iowa were managing their own farm. Successors in England and Canada commonly worked alongside the older generation on the home farm (Uchiyama et al. 2004). Successors generally follow one of two routes to farm management. Successors can go directly into the farming operation after they are finished with school or they can take a professional detour establishing a career off the farm before coming back to the farm (Gasson and Errington 1993). The size of the farm will often have an impact on which route the successor follows. The larger the farm the more likely the successor can follow the direct route working alongside the older generation. England and Virginia were the only sites where this trend was not seen (Uchiyama et al. 2004).

2.4.6 Income and Succession

Another common factor in determining when the succession process takes place is the availability of income. Constraints on income can come from several areas. Unpredictability of prices is a factor influencing the decisions of a farmer (Kaine et al.. 1997). When values are high, division of assets are more difficult. When land values are depressed, it is likely that an intergenerational transfer of a farm business isn't a viable option (Barclay 2005). Similarly, when the income level of a farm is low, the ability of that farm to produce enough income for more than one family does not exist.

2.4.6 Transfer of Management and Decision-making Responsibilities

The transfer of intangible assets such as management of the farm operation or making financial decisions can be an important part of farm succession that is often overlooked. The International Farm Transfers Study asked respondents to attribute a score of 1 to 5 to the decision-making responsibility between the farmer and the successor. If the respondent attributed a score of 1, it meant the farmer had sole responsibility for that particular decision area. A score of five, on the other hand, meant the successor was individually responsible. A score from 2 to 4 meant that the successor and the farmer shared responsibility for that activity. In every study, successors were more responsible for the simple day-to-day activities while financial decisions such as, when to pay bills and locating and negotiating financing were the activities least likely to be delegated to the successor (Uchiyama et al. 2004).

2.5 Conclusion

A look at the past International Farm Transfers Studies provides a view of the trends that have been seen in a variety of nations. This review also shows how complex farm succession, retirement, and the transfer of assets can be. Since the farm business and the family are intertwined so extensively, the succession process will have an impact on both the farm business and the lives of the farmer and the successor. Transferring the family farm is more complicated than transferring a non-farm business. As past studies have shown, the preparations that are taken usually are insufficient and fail to fully prepare the parties involved.

Chapter 3: Methodology

3.1 Introduction

This chapter discusses the procedure used to collect data for the 2006 Iowa Farm Transfers Study.

3.2 The Study Design

This study was made possible by the Beginning Farmer Center. The data contained in this report is the result of a mail survey sent to 2,847 farmers throughout Iowa. There were 972 responses returned (34 percent). In 2000 1,548 surveys were mailed with 418 responses (27 percent).

3.3 The Questionnaire

The questionnaire was sent to the farm operator. The survey was based on a design developed by Professor Andrew Errington and modified for Iowa conditions. Questions on the survey required both close ended responses as well as open-ended commentary. The survey was divided into three general categories.

- ***General Farm Information:*** Information on acreage farmed, type of production, type of farm business arrangement, number of employees, and the number of family members working on the farm and off the farm.
- ***Demographic Information:*** Such as age of respondents, size of family, number of years they have been operating the farm, education level, and gender.
- ***Retirement/Succession Plans:*** Identifying the manner in which farmers identified potential successors and how they trained them, plans on where and when they would retire, how they planned to support their retirement, discussions about retirement or lack there of, demographics of the successors, and the level of responsibility successors had over certain aspects of farming operations.

Respondents were also asked to comment about how they felt about retirement, what they would or would not miss about farming, and what the best plan would be for their farm and why.

3.4 The Mail Survey

The survey was adjusted to represent characteristics of farming in Iowa. The Beginning Farmer Center contracted with the National Agriculture Statistic Service (NASS) to conduct a mail survey. NASS mailed 2,847 surveys and 972 were returned representing a 34 percent response rate.

3.5 International Comparisons

Information from this survey will be retained by the Beginning Farmer Center in Urbandale, Iowa as well as being sent to the International Transfers Data Archive at the University of Plymouth and to Exeter University for analysis with other countries.

3.6 Conclusion

Chapter three provided background information on how data was collected for the 2006 Iowa study. The following chapter will present the findings of the study and draw conclusions from the information gathered.

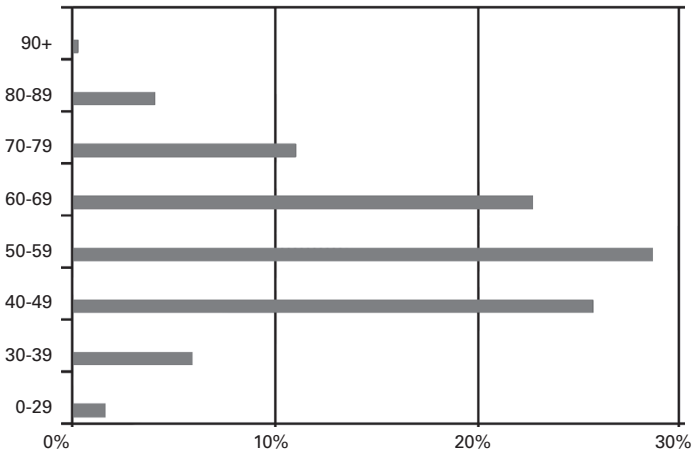
4.1 Introduction

This chapter presents the results gathered through the 2006 Farm Transfers Study in Iowa. The emphasis of this report is on the information received from the 2006 survey and the comparison to the response received in 2000. First, the profile of the respondents and their families will be presented followed by figures regarding the respondent's farms and farm businesses. Next, information on retirement and succession as well as some responses from the farmers themselves will be presented. Finally, the profile of the successors will be presented along with information regarding discussion of retirement and delegation of tasks to the successors.

4.2 Profile of the Respondents

4.2.1 Respondents

Figure 4.1 Age Distribution of Participants



This survey resulted in 972 responses of which 929 (96 percent) were males and 36 (<4 percent) were females. (7 respondents did not indicate their gender) The youngest respondent was 22 and the oldest was 95. The average age of respondents was 56. When asked about children, 101 respondents had no children or didn't respond to that question. There were 734 who had at least one son and 689 had at least one daughter. The average age of sons was 28 and the average age of daughters was 29. The minimum age for a son was 1 year old and the maximum age was 66. Similarly, ages of daughters ranged from 1 year old to 63.

Table 4.1

Characteristic	IA 2006	IA 2002
Average age of operator	56	54.3
Farming as principal occupation	54%	68%
Average size of farms	446	350

A total of 963 respondents reported the level of education they had achieved. Of those 963, a majority (38 percent) indicated the highest level of school completed was high school. Only 58 respondents (6 percent) indicated they had received less than a high school education. Over 20 percent of respondents had graduated from college and 19 percent had at least some college education. Only 10 percent had received trade or technical coursework and almost 6 percent had graduate degrees. In comparison to the 2000 data, respondents in that survey indicated only 16 percent had graduated from college and only 16 percent had some college coursework.

Figure 4.2 Education Level Achieved

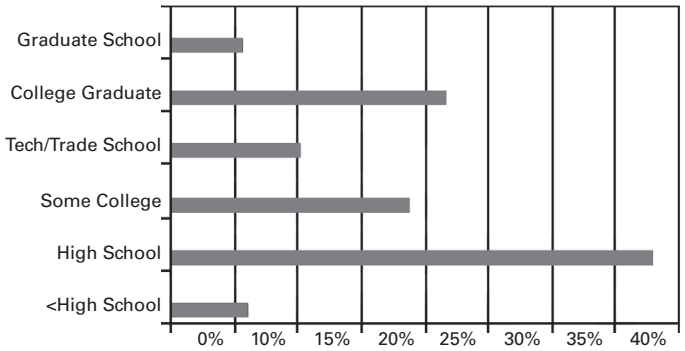
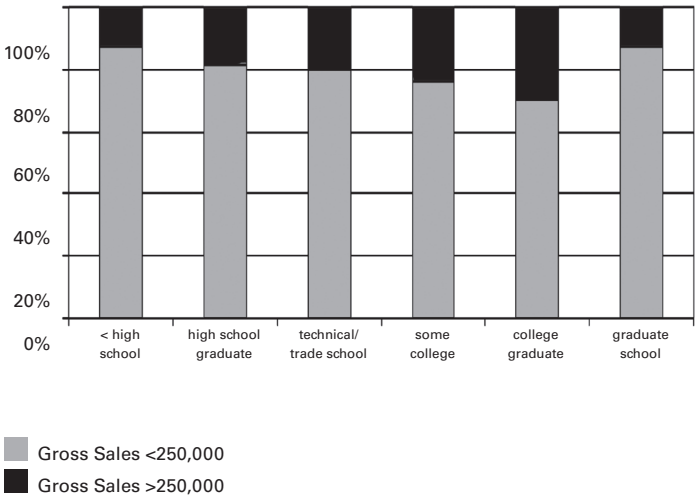


Figure 4.3 shows the relationship between the education of the farm operators and the gross sales of their farms. The chart shows a correlation between the level of education and the gross sales of the operators' farms. The one exception to this trend is when the operator has a graduate degree. One explanation of this may be that those operators with a graduate degree are more likely to simply have a hobby farm rather than making their primary occupation production agriculture.

Figure 4.3 Gross Sales and Education Levels

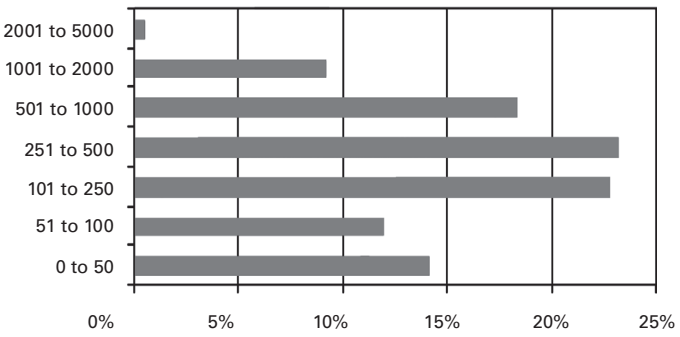


4.2.2 Farming Operations

4.2.2.1 Farm Size

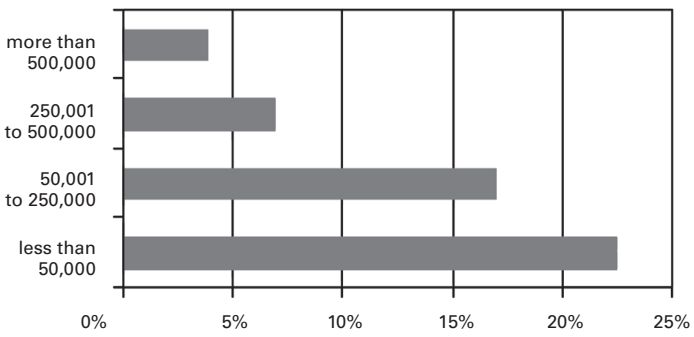
The size of farms in this survey ranged from 2 to 4,000 acres. The majority of farmers (74 percent) indicated they owned row crop ground and 496 (51 percent) reported they rented row crop ground. Only 160 (16 percent) of respondents said they rented pasture ground and 331 (34 percent) indicated they owned pasture ground. Of those respondents who farm row crops, the average number of row crop acres farmed (owned and rented) was 444 acres and the average number of pasture ground (owned and rented) was 104 acres for those who have pasture ground. Overall, the average size of farms in this survey was 446 acres.

Figure 4.4 Farm Size



Gross sales are a key indicator of the feasibility of supporting both a farm operator and the successor during the transition period and the retirement of the primary farm operator. As Figure 4.6 indicates, most farms don't achieve sales high enough to support multiple families. Almost 45 percent of respondents indicated their farms' gross sales were less than $50,000. On the other end of the spectrum, less than 10 percent indicated their farms' gross sales were more than $500,000.

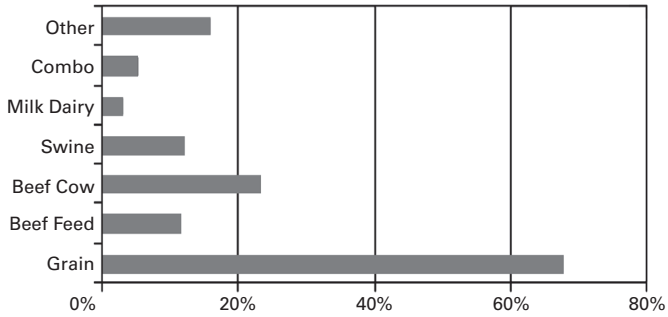
Figure 4.6 Gross Sales



4.2.2.2 Agricultural Production

As Figure 4.5 illustrates, grain production was the most prevalent farming operation in Iowa. All the other categories of production equaled less than 25 percent of respondents. Some respondents (16 percent) indicated that they were involved in other types of production including: CRP, hay, horses, goats, sheep, grapes, and several other types of crops.

Figure 4.5 Crop Production



4.2.2.3 Farm Labor

Figure 4.7 represents the number of respondents who indicated their principal occupation was farming. As the graph indicates more than half of the respondents considered farming their principal occupation. However, while only 54 percent of respondents considered farming their principal occupation, more than 60 percent indicated they are employed full time on the farm. Thus, at least 6 percent of respondents work full time on the farm while maintaining an off-farm job.

Figure 4.7
Principal Occupation

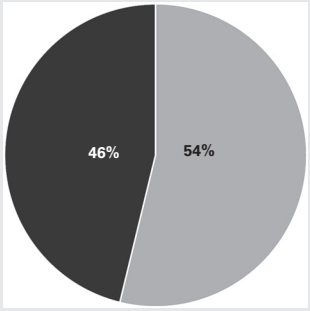
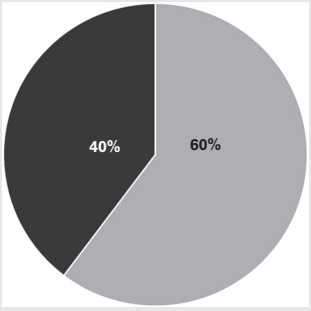


Figure 4.8
Full Part Time Employees on Farm

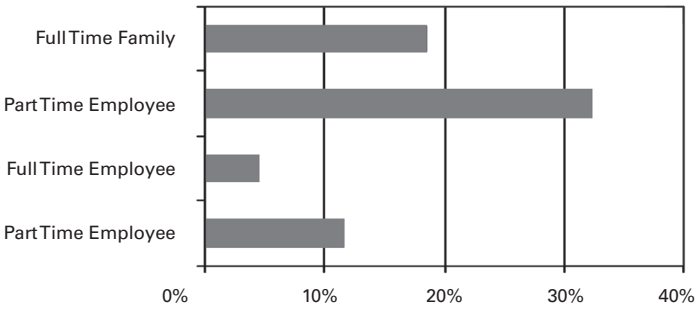


yes

no

Figure 4.9 shows the percent of respondents who hired family members or employees part time or full time on their farms. The number of people hired varied from 0 up to 6 full-time employees and up to 16 part-time employees. The highest number of family members employed on the farm full time was five.

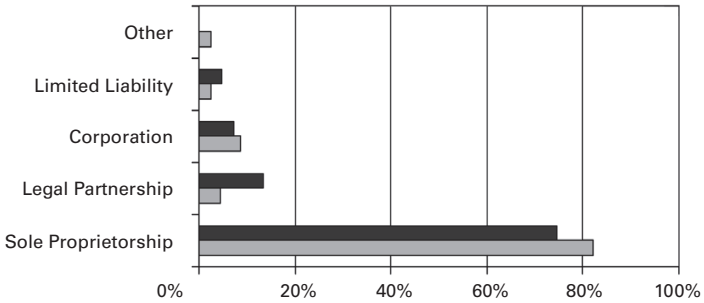
Figure 4.9 Farm Labor



4.2.2.4 Type of Farm Business Arrangement

Sole proprietorship is the dominant business arrangement. In 2000 75 percent of respondents classified themselves as sole proprietorships and partnerships came in second comprising 13 percent of responses. In 2006 over 82 percent of business arrangements were sole proprietorships and the second most common business arrangement was a corporation.

Figure 4.10 Farm Business Arrangement

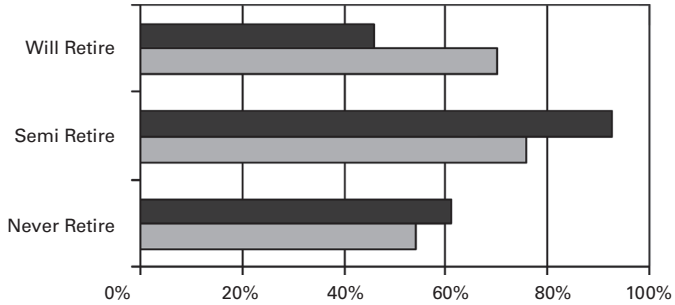


4.3 Retirement

4.3.1 Retirement Plans

As indicated by this study, the average age of farmers is 56. The youngest respondent was 22 and the oldest was 95. Respondents were asked to identify themselves by the statement that best described them. The definitions given in the survey were: (1) never retire – maintain full managerial control and provide some labor to the farm, (2) semi-retire – provide some managerial control and/or labor to the farm, (3) will retire – provide neither managerial control nor labor to the farm. As Figure 4.11 indicates, more farmers described themselves as never retire than will retire. Similar to 2000, respondents indicating they would semi-retire comprised the largest portion of respondents. The more alarming statistic is that the percent of farmers who said they will retire went from 35 percent in 2000 down to only 23 percent in 2006. This may be in part because the 2000 survey didn't include the definitions that the 2006 survey did.

Figure 4.11 Retirement



In an effort to determine if there are identifiable reasons why farmers choose to retire versus semi-retire or never retire, a comparison was made between the three retirement categories and the level of gross sales. Of those farmers who indicated they would never retire, over 87 percent had gross sales less than $250,000. Only 70 percent of farmers who said they would semi-retire had sales less than $250,000 and 80 percent of those who indicated they would retire made less than $250,000 in gross sales. One explanation of this difference may be that those farms with less than $250,000 in gross sales are more likely to be small hobby farms or recreation farms with a farm operator who retired to farming.

Figure 4.12 Gross Sales and Retirement

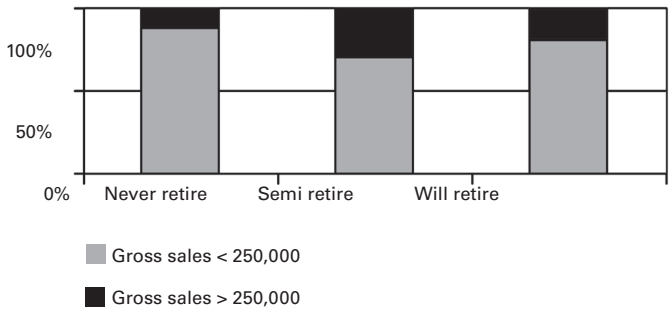
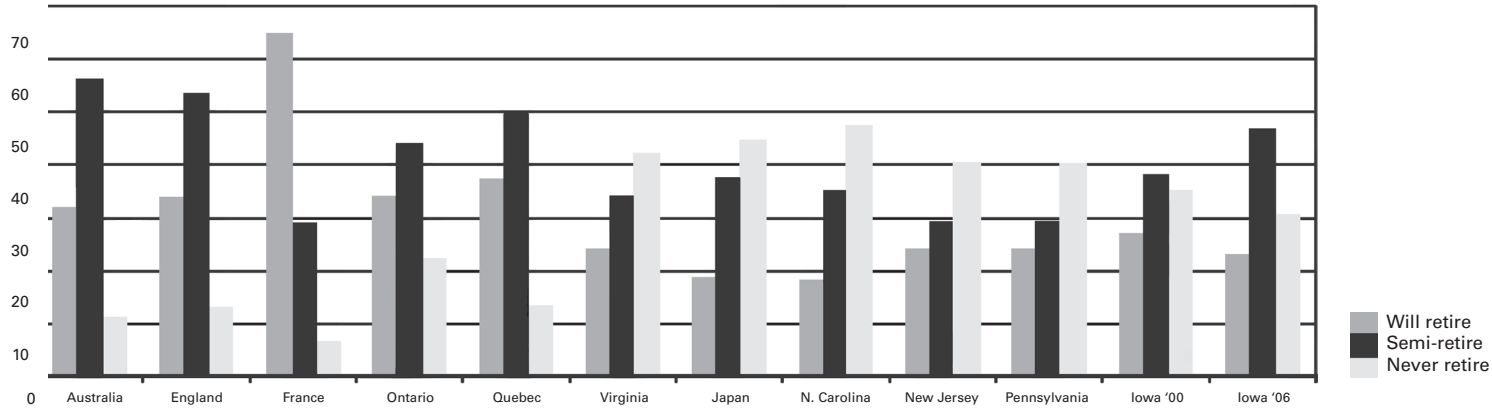


Figure 4.13 compares responses from past studies in the U.S. and foreign countries of farm operators who were asked if they planned to retire someday. Comparing Iowa to other states shows that Iowans are more likely to either retire or semi-retire than their counterparts in the United States. However, comparing Iowans to farmers in other countries surveyed, Iowans as well as American farmers in general are more likely to never retire. Japan is the only country that deviates from this standard, having farmers who showed trends very similar to those in America.

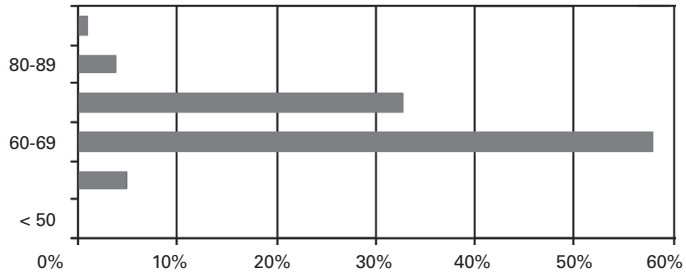
Figure 4.13 International Retirement Comparison



4.3.2 Retirement Age

According to the survey, the average age of retirement or semi-retirement among the respondents is 67 years old. This hasn't changed much since 2000 when the average age for retirement among the respondents was 66 years old

Figure 4.14 Age of Retirement



4.3.3 Attitudes toward Retirement

4.3.2.1 What Farmers Miss About Farming

The most common responses given by operators when asked what they would most miss about farming once they retired or semi-retired were: planting, harvesting, working with livestock, operating equipment, open spaces, active lifestyle, and independence.

> *Being on the tractor, the smell of the dirt, and the excitement when you start the combine and the harvest.*

Less common responses included: the people that you associate with, the challenge, trying new things and improving the quality of the herd or the crop, and the day-to-day change of pace and activities.

> *Watching a new crop progress each year and watching a healthy crop of calves grow into an enterprise of value and pride.*

4.3.2.2 What Farmers Won't Miss About Farming

Respondents were also asked what they would be most pleased to give up when they retired or semi-retired. The most common responses were: grain marketing, long hours, hard work, and inclement weather.

> *Choring below zero in the dark when it's morning. Marketing is the most important and most difficult part of farming.*

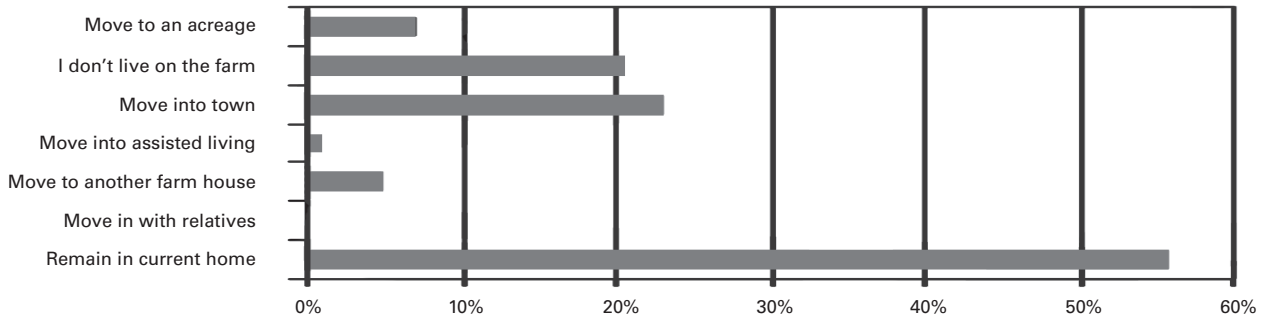
Other less common responses included: government programs, paperwork, high input costs, achieving a positive cash flow, and livestock (especially swine). Several respondents claimed that they would miss everything about farming and would be pleased to give up nothing when they retired. However, some had the opposite remarks claiming they would miss nothing and would be pleased to give up everything.

> *Trying to make a positive cash flow that nets more than eight to ten thousand per year.*

4.3.4 Plans for Retirement Living

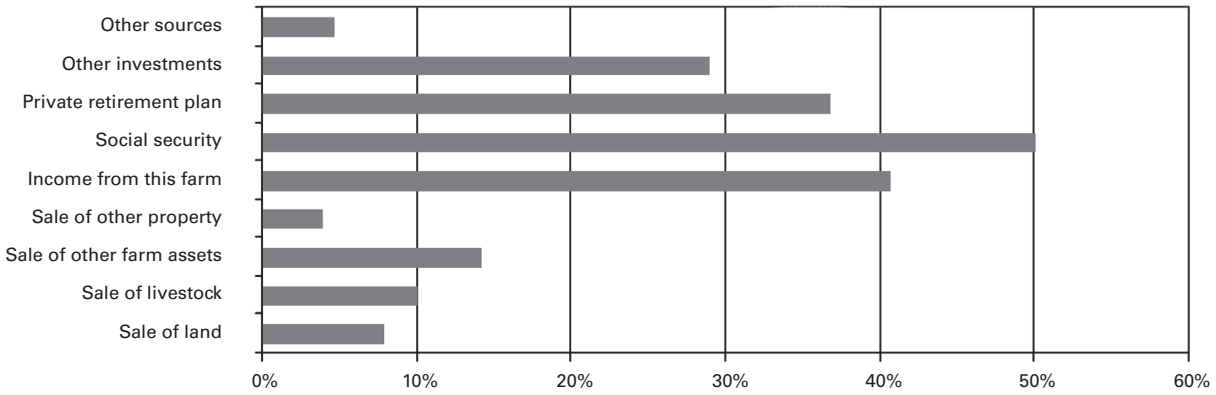
4.3.4.1 Residence of Retiree Of those respondents who indicated they would retire, a majority responded that they would not be moving once they retired. Data collected from the 2000 survey revealed similar attitudes toward moving. When asked how far they would move, 66 percent responded that they would be moving less than 10 miles from the home farm, 23 percent indicated they would be moving anywhere from 10 miles to 50 miles from the home farm, and 11 percent said they would be moving more than 50 miles from the home farm.

Figure 4.15 Retirement Living Arrangement



4.3.4.2 Retirement Income Respondents were asked to indicate whether or not they intended to receive retirement income from given categories. Social Security was the most common category that respondents identified as an income source (50 percent). The other top responses were income from the farm (41 percent), income from a private retirement account (37 percent), and income from other investments (29 percent). Note that the sale of land, livestock, and other farm assets are among the lowest sources of income.

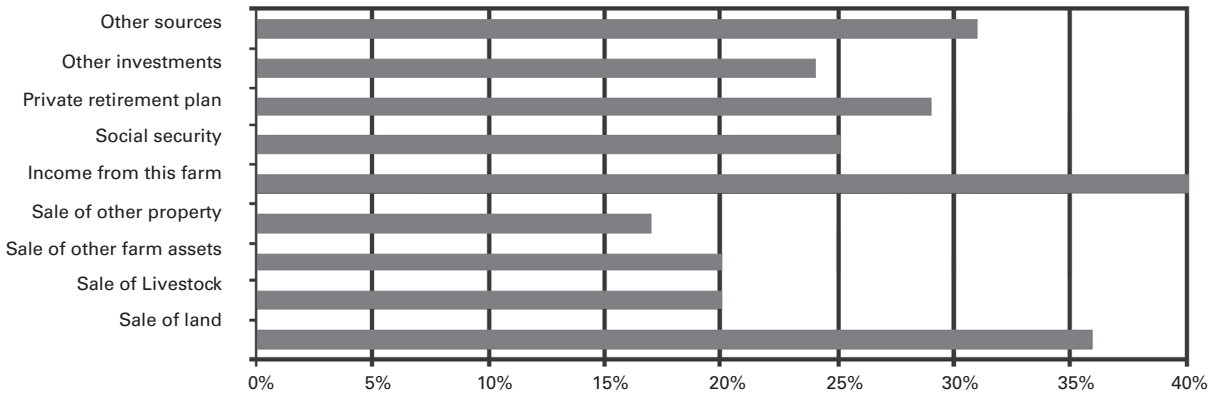
Figure 4.16 Income Source



4.3.4.3 Percent of Retirement Income

Respondents were asked to identify what percentage of their income they planned to receive from several possible areas. Not all respondents identified that they would receive income from every income area. The percent expected from a given category included 1 percent of retirement income up to 100 percent of the respondents retirement income.

Figure 4.17 Percent of Retirement Income for Those Who Identified Individual Sources



4.4 Discussion of Retirement, Succession, and Inheritance

4.4.1 Identification of Successor

Identification of a successor is a very important part of ensuring the long-life of a business. Farmers, however, often fail to identify a successor until it is too late. According to the survey, only 27 percent of respondents had identified a successor, meaning 73 percent had not. In 2000 the response was almost identical with 29 percent of respondents indicating they had identified a successor and 71 percent indicating they had not.

The next three figures attempt to determine possible reasons why some people identify a successor while others don't. The comparisons are age, gross sales, and acreage farmed, combined with the identification of a successor.

Figure 4.18 Identification of Success

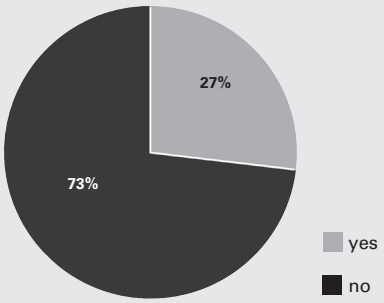


Figure 4.19 is a comparison of age ranges and the identification of a successor. As the age of the respondents increased the number of successors identified increased correspondingly.

Figure 4.19 Age and Identification of a Success

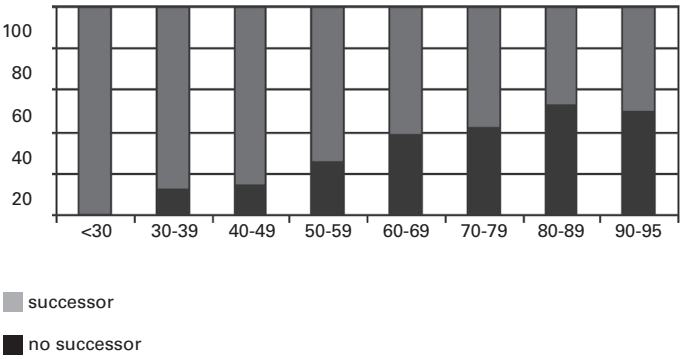


Figure 4.20 corresponds to the acreage farmed and the identification of a successor. As the number of acres farmed increased, no significant change in identification of a successor was made until the respondents indicated they farmed 1,000 or more acres. These respondents indicated almost 50 percent had identified successors while only 26 to 27 percent of respondents farming 100 to 1,000 acres had identified a successor.

Figure 4.20 Average Farmed and Identification of Success

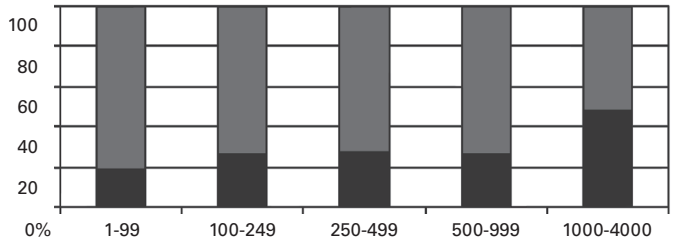
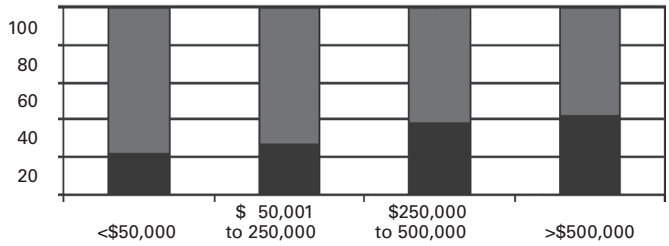


Figure 4.21 illustrates the trend that as the amount of gross sales increased the number of respondents who had identified a successor also increased (26 percent – $50,000 to $250,000. 38 percent under $500,00, and 42 percent over $500,000). Only 22 percent of respondents who had gross sales under $50,000 had identified a successor.

Figure 4.21 Gross Sales and Identification of a Success



4.4.2 Who is Identified as the Successor

When asked who was the identified successor, an overwhelming majority (64 percent) had indicated their son would take over the farming operation. Only 16 percent indicated their daughter would take over the operation. Other common responses were usually relatives such as: sons- or daughters-in-law, nephews, cousins, siblings, and wives.

Figure 4.22 Successor 2006

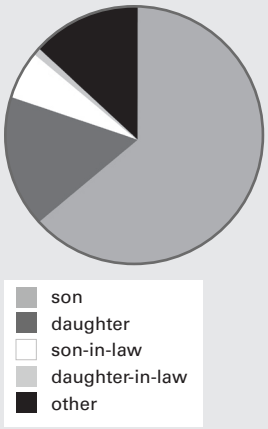
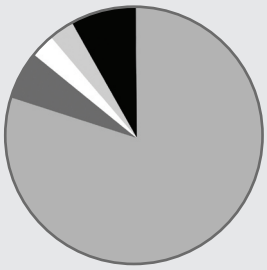


Figure 4.23 Successor 2000



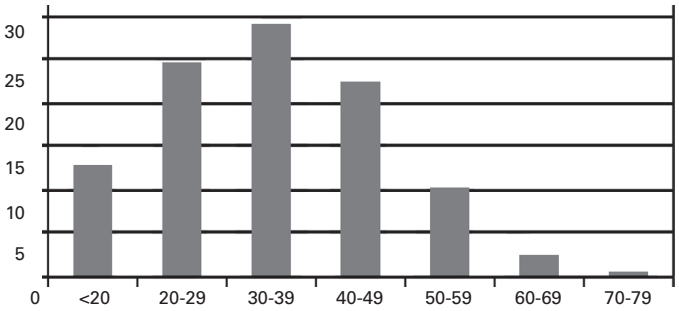
Respondents in the 2000 survey followed the general trend; however, the percent of successors who were sons of the current operator was even higher (80 percent). There was a large increase in the number of successors identified as the daughter of the current operator, up from a mere 6 percent in 2000 to 16 percent in 2006.

4.4.3 Profile of the Successor

4.4.3.1 Age of Successor

The average age of the identified successor is 34-years-old. Figure 4.24 shows the age ranges of identified successors and the percent of successors who fall within a given age range. According to the 2000 survey, the average age of successors at that time was 31-years-old. Respondents identified successors 1-year-old to 70-years-old.

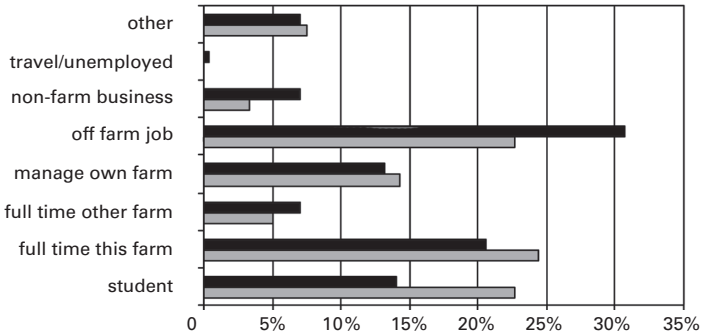
Figure 4.24 Age of Successor



4.4.3.2 Successor's Employment

The most common current employment of successors is off-farm employment (31 percent); followed by working full time on the operator's farm (21 percent), enrolled as a student (14 percent), and managing their own farm (13 percent). By comparison, respondents to the 2000 study indicated the successor was most commonly employed full time on the operator's farm (24 percent) followed closely by an off-farm job (23 percent), and enrolled as a student (23 percent).

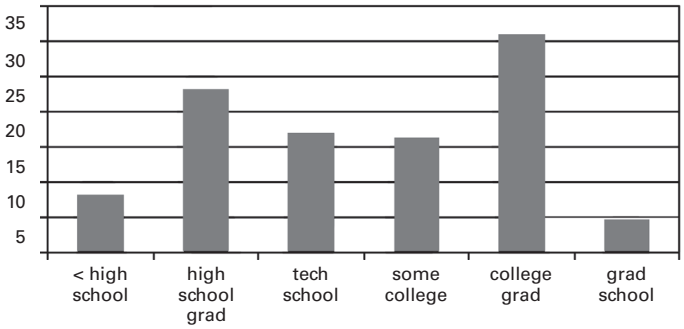
Figure 4.25 Successor's Employment



4.4.3.3 Successor's Education

According to the respondents, 31 percent of successors had a college degree compared to only 17 percent in 2000. Also, the percentage of successors who had a graduate degree more than doubled from <2 percent in 2000 to almost 5 percent in 2006.

Figure 4.26 Successor's Education



4.4.4 Discussion of Retirement and Succession

There were 47 percent of respondents who indicated they had not discussed their retirement plans with anyone, up from 36 percent in 2000. A majority of retirement discussions are had with family members (46 percent), with accountants and lawyers being second and third at 19 percent and 17 percent, respectively. Bankers and consultants rounded out the bottom of people operators chose to discuss their retirement plans with. Other responses included insurance agents, investment firms, and owners who had already retired.

Figure 4.27 Retirement Discussion

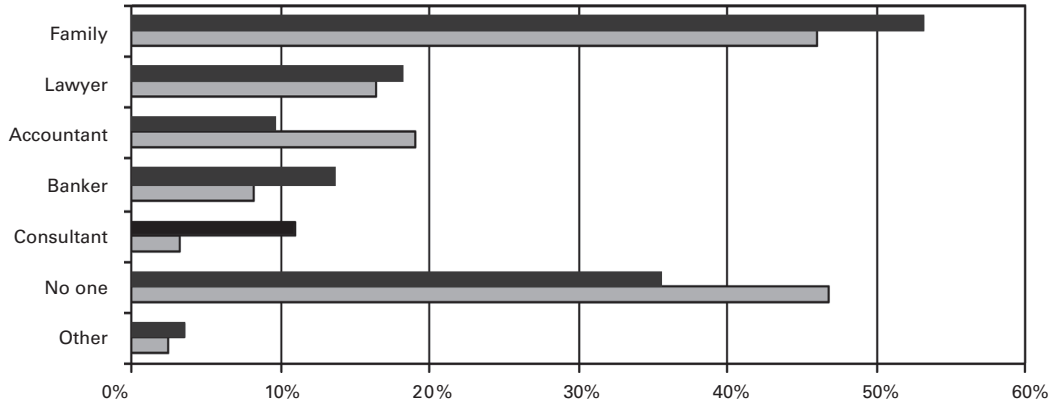


Table 4.1 shows the percent of respondents who claimed to have discussed their retirement and with whom. Similar to other states and countries, family was the number one group with whom farmers had discussed retirement. Unfortunately, Iowans also were more likely to not have discussed their retirement plans with anyone other than their counterparts in most other regions nationally and internationally.

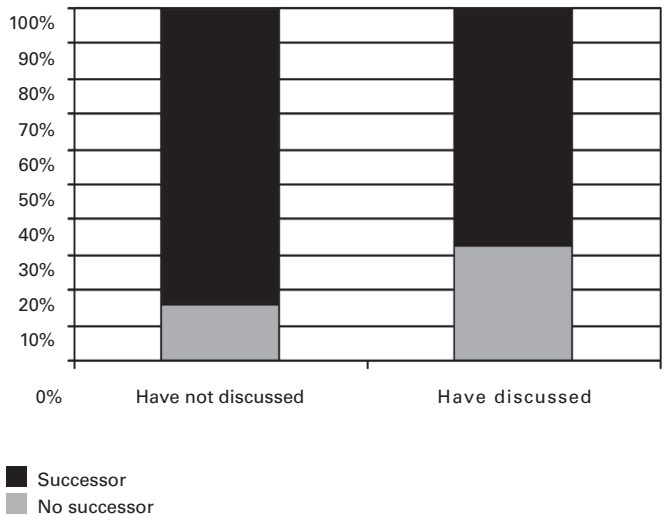
Table 4.1 International comparison of retirement discussions

	Iowa '06	Iowa '00	Pennsylvania '05	New Jersey '05	Virginia '02	North Carolina	Australia '04	Ontario '97	England '97	France '93
Family	46	53	31	31	66	25	59	63	28	55
Lawyer	17	18	9	9	10		9	7	14	
Banker	8	14	3	3	1		10	10	7	9
Accountant	19	10	13	13	11		40	38	39	39
Farm	3	4	2	2	2		8	5		21
Consultant										
Other farm		7	4	4		7	9	7	4	8
Advisor										
Other	3	4	2	2	1	1	5	10	7	6
No one	47	36	21	21	30	67	9	28	44	28

Figure 4.28 illustrates a link between discussion of retirement and the identification of a successor. While those who have not discussed retirement with anyone have identified successors in only 16 percent of the instances, over 30 percent of respondents who have discussed retirement also have identified a successor.

Figures 4.29 and 4.30 compare the retirement discussions of respondents whose farms generated gross sales less than $250,000 and those with more than $250,000. The trends within these two groups are very similar. However, those farms having higher gross sales were more likely to have discussed their retirement with someone. Family was the most common response for both groups of operators. The higher the gross sales, the more likely the operators had discussed retirement with their lawyer, banker, consultant, or accountant. This could be attributed to the fact that the larger farm operations are treating their farms more like a business and less like a hobby or sideline job. Since there is more risk with a larger farm, there also is a realization that discussions and plans have to be made to ensure the existence of the farm business.

Figure 4.28 Discussion of Retirement Identfication of a Successor



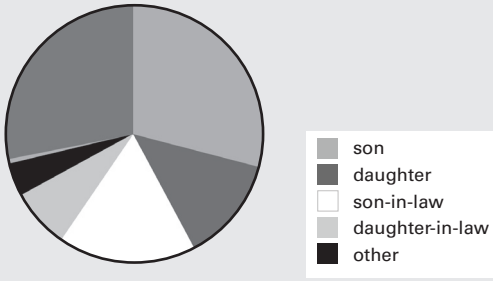
4.5 Succession Process

A major study of farm business transfers identified two main routes that a successor takes prior to becoming the primary operator (Uchiyama et al., 2004). The first route identified is the Direct Route, in which the successor joins the farming operation directly after finishing school. The other route identified by this study is the Diversion Route. When successors follow the diversion route, they find an off-farm job after they leave school and eventually find their way back to the farm. This has also been identified as a professional detour (Gasson and Errington 1993 as cited by Uchiyama et al. 2004).

The statistics on successor occupation identified 24 percent of successors in 2000 worked full time on the operator's farm compared to only 21 percent in 2006. Respondents also reported an increase in the number of successors taking a professional detour, up from 23 percent in 2000 to 31 percent in 2006. In this survey, it was found that those farmers who take the direct route are more likely to obtain indefinable assets such as managerial and decision-making skills. Conversely, those who follow the diversion route are less likely to obtain those same skills.

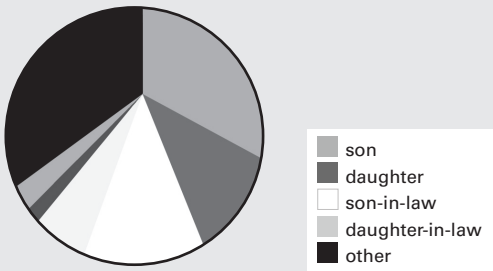
Retirement Discussions by Operators with < $250,000 Gross Sales

Figure 4.29



Retirement Discussions by Operators with > $250,000 Gross Sales

Figure 4.30



4.5.1 Delegation of Managerial Tasks

One objective of the International Farm Transfers Study was to examine the process of the transfer of skills and knowledge to the next generation. Respondents were given a list of tasks and skills that are important to farm management. They were asked to identify the extent of transfer that has taken place for a certain skill or task. Respondents were asked to identify numerically on a scale of one through five. A response of one meant that the operator had retained power over that task or skill, and five meant the successor had complete control over that aspect of the farming operation. The tasks included technical, tactical, strategic planning, marketing, supervisory, managerial, and financial aspects of the farm business. Table 4.2 shows the list of tasks given to the respondents and the results.

Table 4.2 Distribution of Managerial Tasks

	Decision/action taken by				
	Operator alone	Shared between operator and successor			Successor alone
	1	2	3	4	5
Plan day to day work	18%	31%	32%	6%	12%
Make annual crop/livestock plans	19	29	37	5	10
Decide the mix and type of enterprise in the long run	16	31	34	8	11
Decide the level of inputs to use	25	25	33	5	13
Decide the timing of operations	15	30	39	3	12
Decide when to sell crop/livestock	27	27	31	6	8
Negotiate sales of crops/livestock	31	21	35	3	10
Decide when to pay bills	44	20	19	3	14
Decide type and make of machinery and equipment	16	30	34	11	9
Negotiate purchase of machinery and equipment	23	27	31	6	13
Decide when to hire more help	21	33	28	9	9
Recruit and select employees	24	24	30	6	16
Decide amount and quality of work	24	29	33	5	9
Supervise employees	25	29	31	6	8
Decide work method/way jobs are done	18	26	41	7	8
Decide and plan capital projects	24	32	29	8	6
Identify sources and negotiate loans and financing	47	21	19	2	11
Livestock management	19	20	35	9	17
Keeping farm records	45	16	19	5	15
Average 2006	25	26	31	6	11
Average 2000	50	20	13	6	10

Traditionally, respondents have identified the tasks most often retained by the operator alone as locating financing and determining when to pay bills. As the results indicate, the respondents in the 2006 survey are no different with 44 percent of respondents indicating they were retaining sole control of deciding when to pay bills and 47 percent claiming sole responsibility for identifying sources and negotiating loans and financing. The areas most likely controlled by the successor included: livestock management (17 percent), recruiting and selecting employees (16 percent), and keeping farm records (15 percent). The tasks most likely to be shared evenly were: deciding work method (41 percent), decide timing of operations (39 percent), and making annual plans (37 percent). A trend can be seen when task delegation from 2006 is compared with 2000. According to the 2000 survey, the operator was much more likely to have retained control in every task category. The greatest control was still in the areas of identifying sources and negotiating loans (58 percent) and determining when to pay bills (63 percent). In 2000 the sole control by the operator of farming management ranged from 42 percent up to 63 percent compared to 2006 when respondents indicated a range from 15 percent up to only 47 percent. Little increase

has occurred since 2000 in the percentage of tasks for which the successor has complete control; however, there is a definite increase in the percentage of tasks that the operator and successor share equally, up from an average of only 13 percent in 2000 to 31 percent in 2006. When the age of the operator and the successor increases, the amount of responsibility that is controlled by the successor increases. Figure 4.31 shows the relationship between the age of the successor and the average responsibility score that age range has been given. As the age of the successor increases so does the responsibility. Note the 50+ group runs counter to the trend. As successors enter this age range, they begin delegating the simplest tasks to their successor. When this occurs, there often can be two succession processes going on simultaneously with three generations farming side by side. The overlapping of the succession process illustrates how complex handing over a farm can be.

Figure 4.31 Age of Successor and Responsibility Score

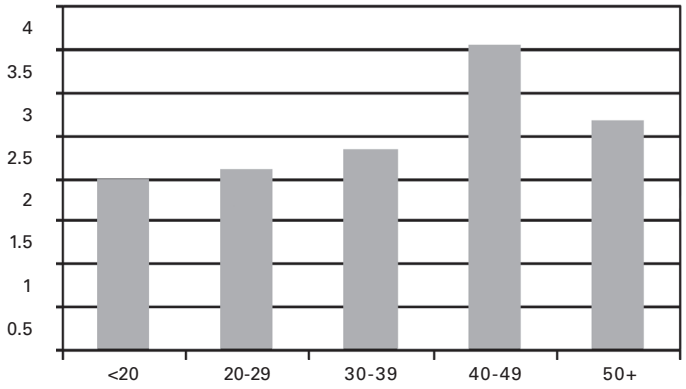
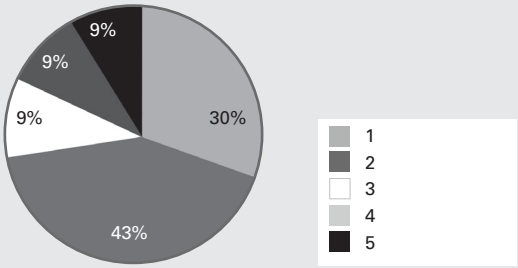


Figure 4.32 shows the responsibility rank of producers who had gross sales less than $250,000. A rank of 1 indicates the producer has maintained management control over the farm decisions. A score of 5, on the other hand, indicates that the successor has been given control over management. A score between 1 and 5 means that some but not all control has been handed down to the successor.

Figure 4.33 shows the responsibility rank of farms with gross sales greater than $250,000. Comparing the two graphs shows that farms with gross sales greater than $250,000 were less likely to have a responsibility score of 1 (21 percent versus 30 percent). Also, while 9 percent of respondents who had gross sales less than $250,000 indicated a score of 5, there were no respondents with sales greater than $250,000 who indicated a score of 5. Thus, while farms with more sales were more likely to have shared responsibility between the successor and the farm operator, they were less likely to have handed complete responsibility over to the successor.

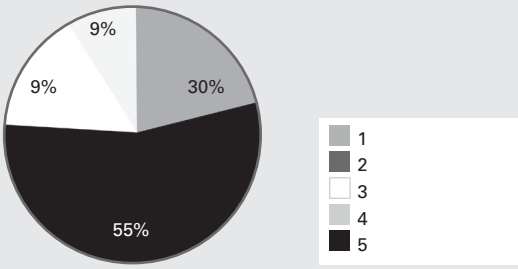
Responsibility Rank and Gross Sales with < $250,000 Gross Sales

Figure 4.32



Responsibility Rank and Gross Sales with > $250,000 Gross Sales

Figure 4.33



4.5.1.2 International Delegation of Tasks

Table 4.3 shows that deciding when to pay bills and identifying sources and negotiating loans are the last responsibilities turned over to the successor. This trend is not specific to the United States; it has been seen in several international studies as well. The most common task given to the successor is determining type and make of machinery and deciding the long term balance and type of enterprise. Compared to the 2000 survey the rankings are similar. The largest change can be seen in deciding the long term balance of the farm, which was ranked seventh in 2000 and now is ranked twelfth. Other changes in rank can be seen in deciding the type and make of machines, and deciding work methods/way jobs are done, which both realized a four-point difference.

Table 4.3 International rank of responsibility scores

Activity/Decision	IA 2006	IA 2000	AUS 2004	EN 1997	FR 1993	ON 1997	QC 1997	VA 2001	JP 2001
Decides when to pay bills	2	1	1	1	1	1	1	1	2
Identify sources and negotiate loans and finances	1	3	2	2	3	2	2	2	1
Decide long-term balance and type of enterprises	12	7=	3	6	6	7	10	5=	11
Decide and plan capital projects	3=	4	4	5	7	5	8	7	9
Negotiate purchase of machines and equipment	8	5	5	8	9	6	9	8	12
Decide when to sell crops/livestock	3=	7=	6	4	4	4	5	5=	6=
Negotiate sales of crops/livestock	3=	2	7=	3	2	3	3	4	6=
Make annual crop/livestock plans	7	10	7=	7	5	8	4	9	4
Level of inputs used	6	6	8	13	13	11	6	3	5
Plan day-to-day work	10	11	9	9	8	12	11	12	3
Decide timing of operations/activities	11	12	10	10	12	9	7	10=	8
Decide type and make of machines and equipment	13	9	11	11	11	10	12	10=	13
Decide work method/way jobs are done	9	13	12	12	10	13	13	13	10

4.6 Transfer Mechanism

Figures 4.34 and 4.35 show the percentage of respondents who have an existing estate plan or will. As the graphs illustrate, a majority of operators have a will (83 percent) while only 40 percent of respondents said they have an estate plan. Traditionally, when operators talk about farm succession, they relate that to the existence of one of these mechanisms for transfer of land and assets. However, farmers often overlook the importance of identifying a successor and transferring the knowledge and expertise they have gained through the years. This can often leave the successor in a situation they are ill equipped to handle.

Figure 4.34 Estate Plan

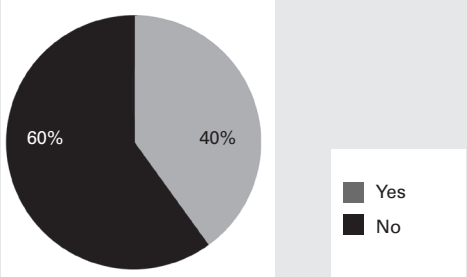
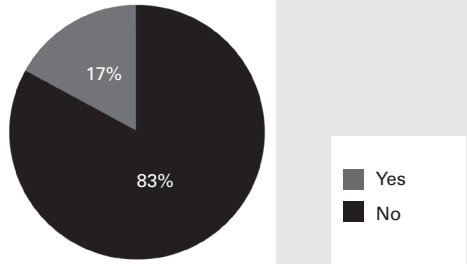


Figure 4.35 Will



4.6.1 Respondents Succession Plans

When farmers have more than one potential heir, they have difficult decisions to make. Some plan to keep the farm as one unit and pass it on to one heir, others divide the property between all heirs equally, regardless of whether an heir is farming or not. When respondents were asked what they felt was the best plan for a farmer in their situation, some of the common responses were:

> ***Use life insurance for off-farm heirs and the on-farm heirs receive the farm.***
>
> ***We will probably sell the farm in order to obtain enough assets to live comfortably in retirement.***
>
> ***Children will receive equal shares of the farm corporation and will receive equal benefits. One son may live on the farm but he won't farm. Compensation to the heirs will be paid by renting the farm out with proceeds to go to the corporation.***
>
> ***It will be divided as equally as possible but not necessarily 50/50. One son has helped me farm the last ten years so that needs to be considered.***

4.6.2 Respondents Suggestions

Respondents were also given a chance to make any suggestions or comments about farm succession in the United Sates. Most of the comments made by the respondents suggested that there should not be an inheritance tax on a family farm when passed on to an heir or that there should be an exemption on the first 5 million passed on. Some other common responses included:

> ***I think the beginning farmer program is great for the young person wanting to farm. Maybe try to enhance that program even more to make it easier to acquire a farm.***
>
> ***It takes so long to pay for a farm but when you sell one, the government is right there to get their tax monies. There needs to be a five-year minimum time to find a place to reinvest that money if you so desire.***
>
> ***It is impossible to buy land due to the down payment requirements of the bank. Eighty acres would require $40,000 to $50,000 down payment. That is not feasible and takes all but the wealthy out of the land equation. Fewer people owning land is not sustainable.***
>
> ***Urban sprawl is destroying our good farmland.***
>
> ***More regulations need to be mandated to restrict farm succession to big corporations and foreign investors who have no concern for the environment and for saving and managing our natural resources.***

Chapter 5: Summary and Conclusion

5.1 Summary and Discussion

Transferring a family farm from one generation to the next is one of the most critical stages in the long-term viability of that farm business. A prime objective of a farm business is similar to that of other businesses, to pass on the business to the next generation in better shape than when it was received or started. Since the family farm is both the place of business and the home for the operator and his/her family, it often causes a transfer to be more complicated than the transfer of a non-farm business. The transfer of the farm is further complicated by the strong bond between the operator and the land, as well as with the tradition of being a farmer. Additionally, intergenerational farm transfers significantly affect agriculture, rural policy, and the vitality of several million individual farm businesses worldwide (Errington 2002). Rather than focusing on the transfer mechanisms used by farmers, this study has focused on the transfer of labor, management, decision making, and other intangible assets.

This study is a replication of the International Farm Transfers Study conducted in Iowa in 2006 by the Beginning Farmer Center. A comparison between this study and the International Farm Transfers Study conducted in Iowa in 2000 provided an opportunity to identify differences, similarities, and trends among Iowa Farms. This information will be used to develop educational tools and materials to assist farmers with this important yet often overlooked transfer of intangible assets to the next generation of farmers. Furthermore, this information will provide policy makers an understanding of obstacles and issues regarding farm entry and the transfer of a family farm.

5.2 Retirement

According to survey results the average age of those interviewed was 56 years of age. Most respondents (94 percent) indicated they at least completed high school and over 20 percent had earned a college degree. In comparison only 16 percent of those surveyed in 2000 had earned a college degree. The increase in college degrees earned among farmers is a positive trend since as education increases so does the gross sales of farm.

Of those responding, 54 percent said their principal occupation was farming while more than 60 percent said they were employed full time on the farm. Consequently, at least 6 percent of respondents are working full time on the farm as well as having a full time occupation off the farm. More than 10 percent of respondents have part-time employees and nearly 5 percent have full-time employees who are not family members. Over 30 percent indicated they have family members working part time on the farm while close to 18 percent said they have family members working full time on the family farm. In both the 2000 survey and the 2006 survey sole proprietorships dominated the type of business arrangements of Iowa farms. According to the 2006 survey the next most common type of business arrangement was a corporation.

Making the decision to retire is often a very difficult decision for farmers. According to the 2006 survey more than 30 percent of respondents indicated they would never retire while only 23 percent said they would retire. In 2000 35 percent of respondents said they would retire. The difference in the number of those who said they would retire is in part due the fact that the 2006 survey included definitions of never retire, semi-retire, and will retire, which the 2000 survey did not. Those definitions are included in Chapter 4. The choice to semi-retire was the most popular choice in 2000 as well as 2006. In general American farmers are less likely to retire than their counterparts throughout the world. The one exception is farmers in Japan who make similar decisions regarding retirement as those in America. One reason farmers in most other countries may be more willing to retire is that they receive retirement benefits and incentives for retiring early. Iowa farmers are unique in that they are more likely to semi-retire than never retire. Farmers from other states, on the other hand, were more likely to say they would never retire than semi-retire. Semi-retirement in Iowa may be more popular than in other states because there are more successors who want to enter farming. A farm operator is more willing to semi-retire when a successor is available to take over the farm.

When a decision has been made to retire, farmers have to decide where they are going to spend their retirement. Of those responding, 55 percent indicated that they would not be moving from their current home when they do decide to retire. Usually the home farm is where the grain storage, machine sheds and shop are located. If a retiree decides to stay at the home farm, a problem can arise because the successor must live somewhere other than the base of operations for the farm.

Part of the reason so few farmers plan to fully retire from the farm is the need for income throughout their retirement years. Of those responding 50 percent indicated that they expected to receive some sort of retirement income from Social Security. However, respondents also said Social Security would account for only 25 percent of their retirement income. Although most farmers plan to receive income from Social Security, they also know it will not be sufficient to cover all their retirement expenses. Rather, income from the farm, on average accounted for 40 percent of respondents' retirement income

5.3 Succession

5.3.1 Identification of a Successor

In 2000 as well as 2006 more than 70 percent of respondents had failed to identify a successor. Age of the operator was the single biggest determining factor regarding the identification of a successor. As the age of the respondents went up, so did the likelihood that they had identified a successor. Unfortunately, while 80-89 year olds had identified successors – more than any other age group – they only had done so slightly more than 50 percent of the time. Almost 50 percent of respondents who were 80-89 years old had not identified a successor. The identification of a successor is one of the most important factors in the long-term viability of the family farm. Within the next 10 years there will be a huge transfer of land, for which, unfortunately, not many people are ready.

Gross sales were also an indicator of whether or not a successor has been identified. Farms that had gross sales in excess of $250,000 had identified a successor in close to 40 percent of the instances while those respondents who had gross sales less than $250,000 had identified successors fewer than 25 percent of the time. This may be explained by the different attitudes between large and small farmers. Large farmers are more likely to run their farm similar to how a small business owner would. Small farms are more likely to be hobby farms and the owner may not see a necessity to identify a successor. Also, the larger the farm the more likely the farm can support a successor and the more there is available to transfer. The most likely successor is the son of the operator. 64 percent of successors were the sons of the operator while only 16 percent were daughters. In 2000 only 6 percent of respondents identified their daughters as their successors. The increase in the number of females identified as a successor is a positive trend that leads one to believe that the gender barrier among farmers is being eroded. Successors in 2006 were more likely to be employed at an off farm job and less likely to be employed full time on the respondents farm than they were in 2000. This creates an atmosphere in which it is hard for the successor to develop the type of management skills necessary to take over the farm when that time arrives. If the successor is working on the farm side-by-side with the operator, there is more opportunity for the successor to begin taking over responsibilities.

Discussion of retirement is the first step in a long process of identifying a successor, training the successor, and retiring. Family was the most common response when respondents were asked with whom they have had retirement discussions. Accountants and lawyers were the next most common answer, but respondents suggested this less than 20 percent of the time. However, more than 45 percent of respondents haven't had retirement discussions at all. This is up 11 percent from the survey conducted in 2000. The number of Iowa respondents who said they had not talked to anyone about retirement was also higher than farmers in most other states and countries. Iowa farmers need to start planning for retirement and succession early in their careers to avoid being surprised when it becomes too late.

5.3.2 Delegation of Management and Decision Making

A major objective of the International Farm Transfers Study is to gain understanding and insight into the preparation of the successor to take over the farm upon the retirement of the older generation. Often the older generation fails to fully train their successor on intricacies of running a farm business. According to the survey, decisions on when to pay bills, identifying sources of financing, and negotiating financing are made by the operator alone more than any other decisions. Upon retirement of the older generation or when the older generation passes away suddenly, successors can be left in a situation for which they are not fully prepared. Between the 2000 survey and the 2006 survey, the amount of delegation has improved. More decisions are being shared equally between the successor and the primary farm operator. As would be expected, the older the successor, the more likely the successor will be given more responsibility.

The amount of gross sales of the farm seems to have an impact on whether or not the successor has been given decision-making responsibilities. As gross sales go up, the likelihood that decision-making is shared between the successor and the primary operator also goes up. However, while 9 percent of respondents who had gross sales less than $250,000 had given full responsibility to their successors, there were no operators with more than $250,000 in gross sales who had given full decision-making responsibility to their successor.

Part of the failure of delegating responsibility to a successor is due to the fact that some of the respondents didn't have successors old enough to be given such a responsibility. Trends in Iowa regarding delegation are similar to those throughout the United States and in most other countries as well. While some operators are good at delegating responsibility to their successors, there are many who treat their successors more like hired men than future owners of the farm business. These operators hold onto the decision-making power their entire lifetime, only relinquishing that power upon death when the successor is 60 or 70 years old and ready to retire. This type of arrangement prevents some possible successors from returning to the farm because they don't want to wait their entire lives before they are allowed the risks and rewards of farm ownership. A better situation is one in which successors start taking over certain responsibilities and are allowed to start buying into the farm at a young age.

5.4 Conclusion

Transferring a family farm from one generation to the next is a critical point in the survival of a family farm. The purpose of this study was to examine that transition period to determine ways to inform and educate farmers of the importance of being prepared. Usually when people think of succession, they automatically conjure up thoughts of wills, trusts, and estates. While these tools are important to ensuring proper transfer of tangible assets, farmers often overlook the intangible assets. Such things as locating and negotiating loans, managing employees, purchasing equipment, planning day to day activity, and deciding the timing of operations are intangible assets that also need to be handed over to the successor in a manner that will allow them a chance to have some input and control over running the family farm.

There are several steps in the succession process and farmers need to be aware that the sooner decisions are made the easier the entire process will be. The first step is to discuss retirement with family and identify if any family members are interested in being successors. Once a potential successor is identified, a conscious effort needs to be made to involve that successor in every aspect of running a farm business. As the older generation nears retirement, they can feel comfortable that if they do chose to fully retire the successor is properly prepared to take over the farm. There is no perfect plan to cover all aspects of farm succession; the main thing to remember is to keep the lines of communication open between all members of the family and to take action as early as possible.