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BE PROACTIVE: Eric Sweeney with Steward Partners says one of the first steps in managing your farm's future is to have a plan in place.

4 tips for planning your farm's future

Lack of long-term planning is one of the biggest issues facing farmers and ranchers today, financial adviser says.

Tyler Harris 1 | Jan 03, 2019

The past few years haven't been easy economically for those in agriculture. Commodity prices have fallen, interest rates have risen, and while the cost of some inputs has come down, margins remain tight.

Eric Sweeney, vice president and wealth manager at Steward Partners in Holdrege, Neb., says many farmers in the U.S. face three big problems: not having a will, being asset rich but cash poor, and lacking long-term planning.

"If you read the stats of people who put together a financial plan, the people who have a plan typically earn 90% more than people who don't," Sweeney says. "That is a pretty staggering statistic. The only time people want to plan is when someone dies, someone gets divorced or someone gets disabled. By then, it's too late. Why not think about these things ahead of time? They're three facts of life. At least one of them is going to happen."

Sweeney offered four tips for managing for your farm's future.

1. Sit down, get started and put a plan on paper.

"Everything funnels from that," Sweeney says. "If you don't know where to come up with a plan, seek a professional to help come up with a plan. Start with something simple and build from it. Not starting at all can really dismantle you over time and make you reactive as opposed to proactive."

When developing a written plan, one of the first questions to ask is: What are your goals for your farm or ranch? Then, break it down into steps and identify any hurdles that might come up. Equally important is assigning someone to hold you accountable to those plans, and following up with regular meetings, making note of any financial changes.

2. Assign a person, either someone involved in your farming or ranching operation or a third party, to keep records. This includes not only bookkeeping records, but also records of who owns which assets.

"When you think of wills, how many people don't have a simple will, but have $3 [million] or $5 million worth of assets? It's incredibly daunting," Sweeney says. "A lot of farms and ranches are owned by both grandpa and dad. There are so many different components, but nobody knows who owns what."

3. Have a long-term succession plan in place. This is where it's important to keep track of who owns which assets, and who stands to inherit them if a family member dies.

This might mean restructuring a buy-sell agreement to buy off-farm heirs' shares of the farm ahead of time.

"It's a lot easier to restructure a buy-sell agreement 10 years before a death than after a death," Sweeney says.

One strategy is structuring a buy-sell agreement in conjunction with a life insurance policy. For example, using a cross-purchase plan, each co-owner takes out a policy on their fellow co-owners. If a co-owner dies, the remaining owners receive cash, which can be used to buy the deceased owner's shares of the farm. This provides liquidity for remaining owners and flexibility for the on-farm heir to keep farming without dividing the assets to off-farm heirs.

4. Have a strategy to manage cash flow for the long and short term. This includes having a dynamic grain marketing plan and understanding where your breakeven is.

"What is the number where you can make a certain amount per bushel to cover your costs?" Sweeney asks. "You also have to consider cash flow. In December, growers could have tons of grain in a bin, but they also need cash to buy inputs for the following year."

Sweeney also advises growers to tuck money away or pay off debt during upswings in the market, rather than spending income on new, depreciable assets, such as equipment or buildings for tax deduction reasons. And, there are other options for tax deferment.

"Depending on how your business is structured, you could put it into a solo 401(k)," Sweeney says. "You can put away up to $55,000 tax deferred in 2018, $56,000 in 2019, and if you are over 50, $61,000 for 2018 or $62,000 in 2019 tax deferred.

"Another option is an SEP [simplified employee pension] IRA. Even as a sole proprietor, you could set up an SEP IRA. You can defer taxes on 25% up to $55,000 in 2018, or $56,000 in 2019 of your income per year. That is a very simple thing to do, but a lot of people just don't take advantage of it."

To learn more, visit sweeneywealthmanagementgroup.com , or email Sweeney at eric.sweeney@stewardpartners.com .

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