

FARM SUCCESSION IN IOWA

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EXECUTIVE SUMMARY

The rapidly changing agricultural climate in Iowa has raised questions about the manner in which the state's farms are being passed down to a new generation of farmers. In February, March, and April 2000, Iowa State University's Beginning Farmer Center (BFC), through the Iowa Agricultural Statistics Service, surveyed over 1500 Iowa farmers; the survey examined common succession plans being implemented throughout the state. The survey questions requested both closed-ended, Likert-scale responses and open-ended commentary from the participants. The primary goal of this survey was to determine how Iowa farmers were planning their retirements and the role farm succession plays in these plans. It also was hoped that the survey would surface the most pressing issues regarding retirement and farm succession, issues that the BFC in turn could address when working with its farm clientele.

This paper therefore presents 1) a description of the survey objectives and its targeted audience; 2) a summary of the retirement trends suggested by the survey responses; 3) an analysis of the process by which farmers are passing along their operations to the next generation; 4) a comparison of Iowa trends with those in England, France, and Canada; and 5) implications for Iowa farmers' retirement plans.

Of the surveys, four hundred and eighteen viable responses (a 27 percent response rate) were returned and subsequently used to determine trends in Iowa farmers' retirement decisions and to understand trend differences from those in British, French and Canadian farm successions.

Practitioners will find several areas ripe for further research in the survey results, including the revelation that little time (12 years on average) remains for Iowa farmers to

plan their retirement. Aside from the nearly one-third of respondents who claimed that they intended never to retire, other feedback suggests that current retirement decisions may lead to financial and familial conflict, particularly retirees' intentions to draw retirement income from the continued operation or sale of their farm. In addition, responsibility for managerial decisions between retirees and their successors appears to be unevenly distributed, perhaps due to the philosophical differences between historical, production-based and current, management-based farming.

Further research also will help to understand the differences between North American and European farmers. When results from the BFC survey are compared to that of its model, constructed by University of Plymouth (UK) professor Andrew Errington, notable comparisons arise. In particular, American and Dominion (excluding Quebec) farmers would seem to approach retirement slowly and to pass authority to their successors with equal deliberation. These farmers also tend to rely more heavily upon government subsidies and their own farms for retirement income, whereas European and Quebec farmers move more quickly into the farm transfer and retirement processes. This correlation among extensive government involvement, the rapidity of a farm's transfer, and the thoroughness of a farmer's estate plan warrants further scrutiny, so that a retirement plan that benefits both farmers and successors might be developed.

ABSTRACT

In early 2000, Iowa State University's Beginning Farmer Center (BFC) surveyed over 1500 Iowa farmers to discover succession plans that are being implemented throughout the state and to specify the most pressing issues affecting farmers' retirement and succession decisions. Four hundred and eighteen viable responses (a 27 percent response rate) were returned and compared to the results from a survey administered to British, French and Canadian farmers. The results suggest a correlation among the extent of government involvement, the rapidity of a farm's transfer, and the thoroughness of a farmer's estate plan. Further research into the nature of this multi-party correlation is recommended so that a retirement plan that benefits both farmers and successors might be developed.

FARM SUCCESSION IN IOWA

Introduction

In the future, who will farm the land? Under what conditions will it be farmed? Will there be any young farmers at all? These are tough questions for which there are no solid answers. The answers to these critical questions depend largely on how current farmers handle their business succession: Who will take over the farms they have worked their whole lives to develop? One thing is certain, Iowa and its farmer population will look different in the years ahead.

In an effort to explore these questions, Iowa State University's Beginning Farmer Center (BFC), through the Iowa Agricultural Statistics Service, surveyed over 1500 Iowa farmers in February, March, and April 2000. The survey examined common succession plans being implemented throughout the state. Four hundred and eighteen viable responses (a 27 percent response rate) were returned and subsequently used to draw conclusions about farmers' retirement decisions.

This paper presents 1) a description of the survey objectives and its targeted audience; 2) a summary of the retirement trends suggested by the survey responses; 3) an analysis of the process by which farmers are passing along their operations to the next generation; 4) a comparison of Iowa trends with those in England, France, and Canada; and 5) implications for Iowa farmers' retirement plans.

The Survey

The primary goal of this survey was to determine how Iowa farmers were planning their retirements and the role farm succession plays in these plans. It also was hoped that the

survey would illuminate the most pressing issues regarding retirement and farm succession, issues that the BFC in turn could address when working with its farm clientele. The overall survey was modeled on a design by University of Plymouth (UK) professor Andrew Errington. He conducted a series of surveys throughout the 1990s to study farm transfer between familial generations and compare transfer methods among British, French and Canadian farm families.

Survey Design. The survey questions requested both closed-ended, Likert-scale responses and open-ended commentary from the participants. These questions were divided into three sections: 1) General Farm Information; 2) Demographic Information about the number of family members on each farm and their ages; and 3) Retirement Plans detailing the manner in which farmers chose and trained their successors.

Recipient Demographics. The survey was designed to mirror the Census of Agriculture demographics (Figures 1-3) and to represent Iowa's nine crop reporting districts. The majority of respondents owned and rented between 180-499 acres, averaged 54 years of age, and managed cash grain (64 percent) or beef cow (24 percent) operations.

FIG. 1. COMPARISON OF ACRES OWNED BY SURVEY AND CENSUS OF AGRICULTURE RESPONDENTS

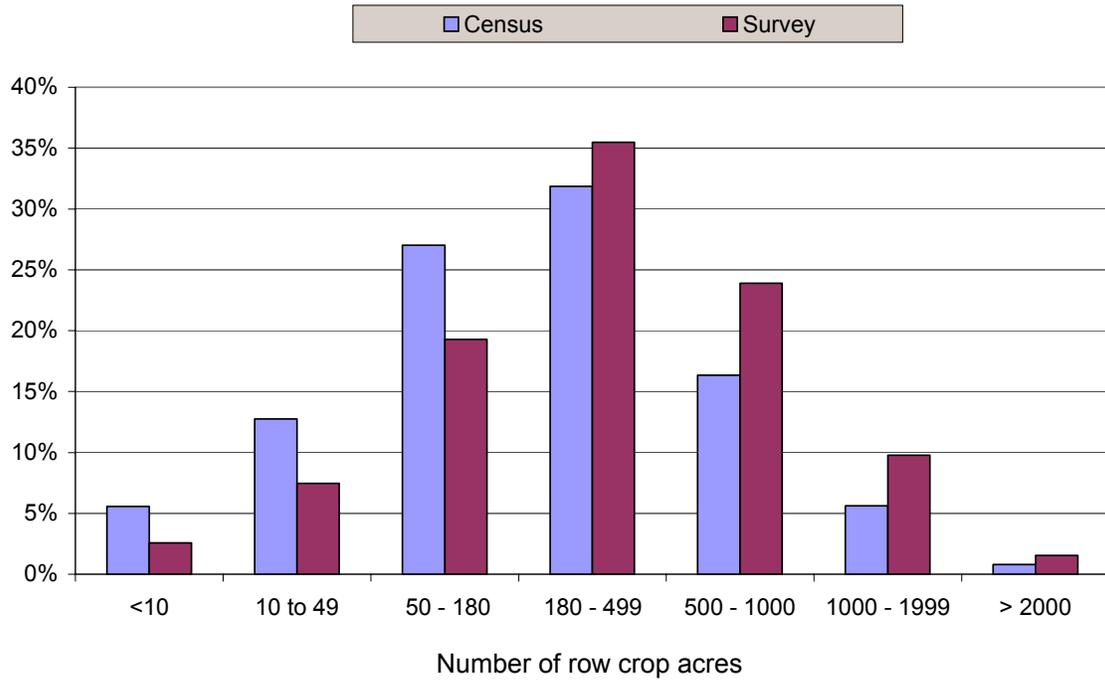


FIG. 2. COMPARISON OF LOCATION BETWEEN SURVEY AND CENSUS OF AGRICULTURE RESPONDENTS

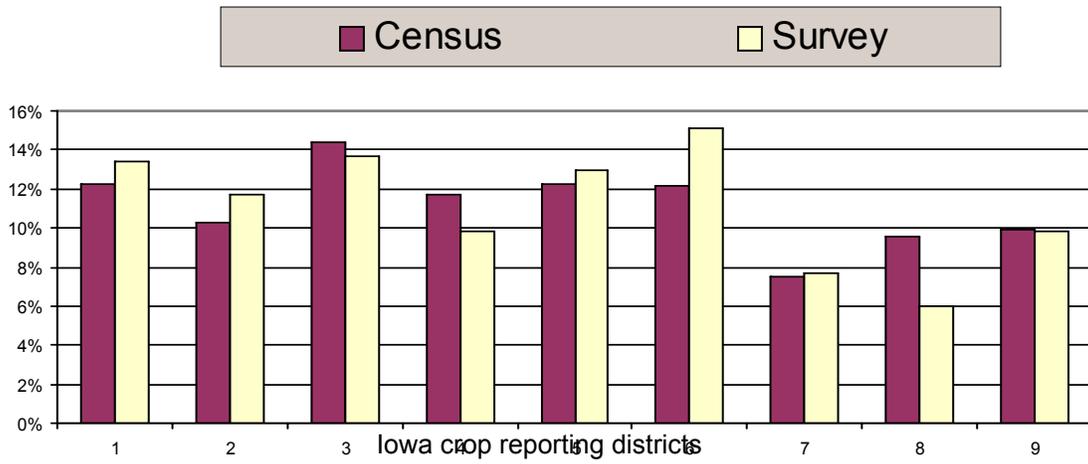
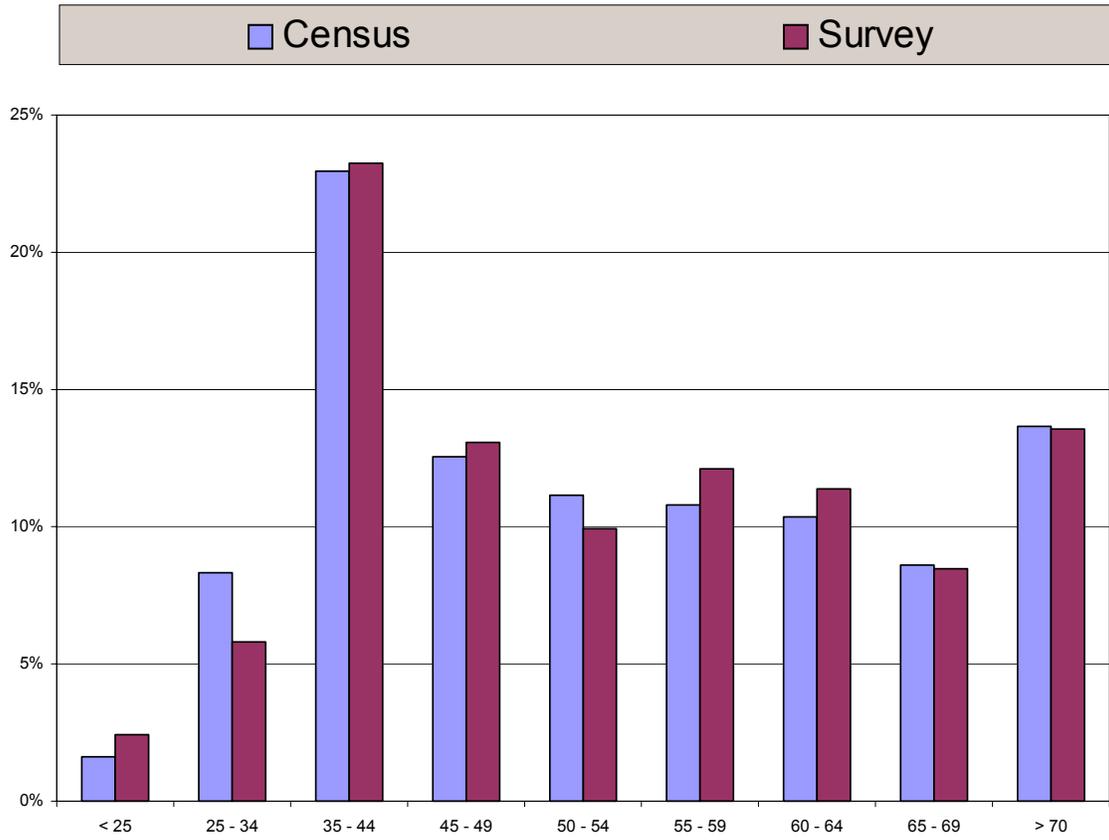


FIG. 3. COMPARISON OF AGE DISTRIBUTION BETWEEN SURVEY AND CENSUS OF AGRICULTURE RESPONDENTS



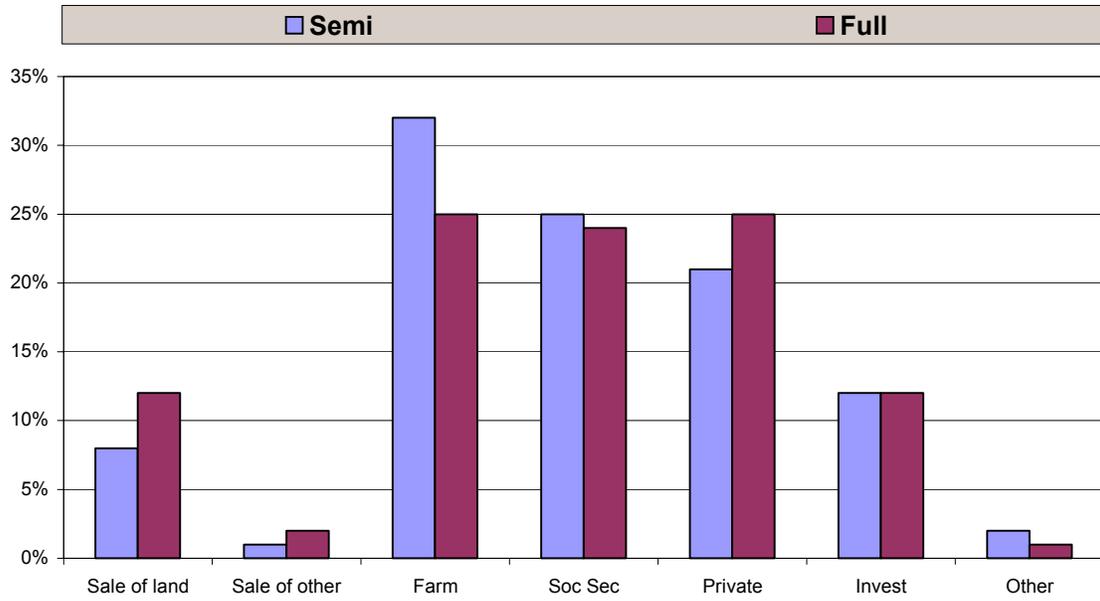
Survey Process. The Beginning Farmer Center, with assistance from the Iowa Agricultural Statistics Service, was responsible for the construction and distribution of the survey. The latter organization is a state statistical office of the National Agricultural Statistics Service under the United States Department of Agriculture; its responsibilities include crop, land and livestock data and functioning in other capacities as directed by the USDA. More than 1500 surveys were distributed by mail to participants during February, March and April 2000. The proximity to Iowa's planting season may account for the 27 percent (418 surveys) return rate. These participants were not notified ahead of time that they were to receive the survey; nor were any incentives promised for returning the surveys.

The Respondents and Responses

Respondent Demographics. The demographics of those farmers who responded suggest that Iowa's farming population is comprised largely of middle-aged males who are the sole proprietors of their businesses. This age demographic has significant implications for farmers' retirement plans. Twenty-seven percent of respondents stated that they intended never to retire, while the remainder cited plans for full or semi-retirement.

Dominant Retirement Plans. While many participants with retirement intentions looked to their Social Security benefits as a component of their income, the majority of their retirement income was expected to come from the continued operation or sale of the farm. Private retirement plans also were listed as a preferred income source (Figure 4).

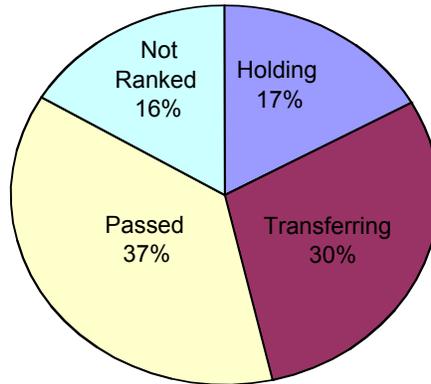
FIG. 4. POST-RETIREMENT SOURCES OF INCOME AMONG FARMERS WHO WILL SEMI- OR FULLY RETIRE



The respondents' intentions to continue receiving income from their operations after retirement suggest that farmers would have a post-retirement plan of action. However, even though respondents indicated an average retirement age of 66, nearly three-quarters (71 percent) of them still had not chosen any successor to their operations. Given that participants' average the age was 54, only 12 years remain for development of a successful retirement plan. Further discussion of this issue can be found in the section "National Comparison of Intra-Family Farm Succession."

Intra-Family Succession. Of the 29 percent of respondents who had identified a potential successor to their operations, the majority (79 percent) named their sons, while 6 percent named their daughters and another 6 percent their sons- or daughters-in-law. The final 8 percent listed "Other" in naming their successors. This report focuses only on those maintaining the farm within the family unit. Figure 5 shows the number of respondents who remain in charge (*holding* onto their farms), who are in the process of *transferring* their farms to a successor, and who already have *passed* their farms down to a succeeding generation.

FIG. 5. COMPARISON AMONG NUMBER OF FARMERS WHO ARE HOLDING FARMS, TRANSFERRING FARMS AND HAVE PASSED FARMS TO SUCCEEDING GENERATION



The Succession Process

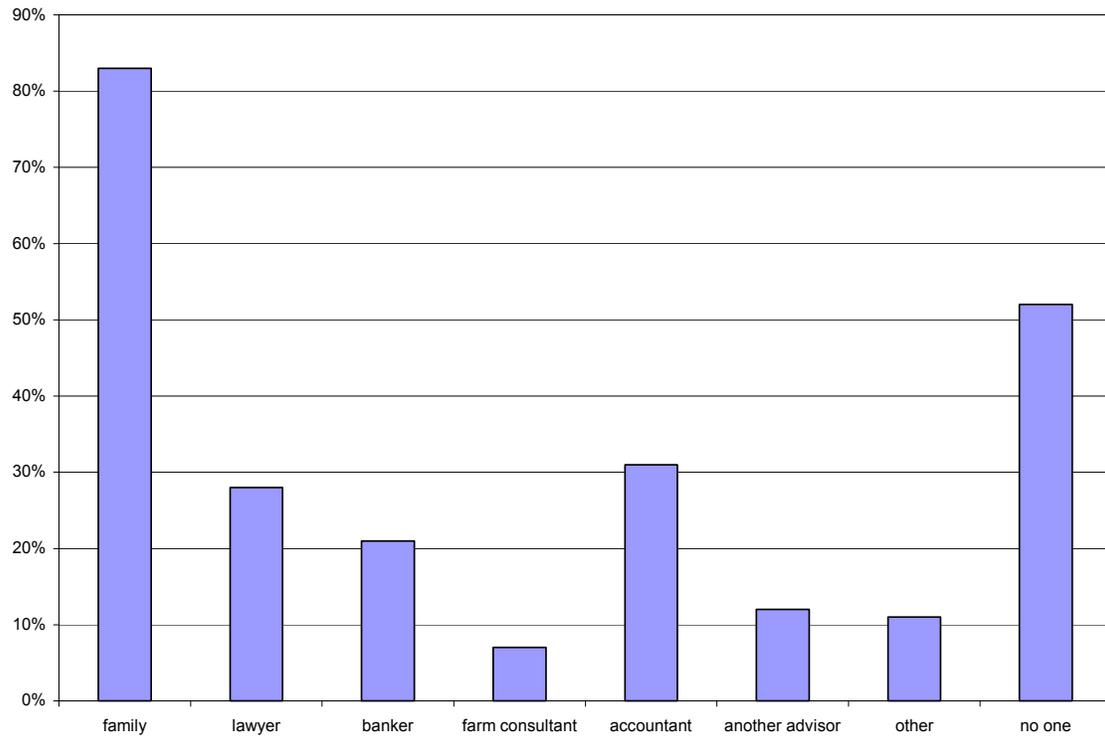
Method of Entry of Younger Generation. When it came to learning the management skills necessary to farm successfully, there was an unexpected similarity between the survey participants' education levels and those of their successors. Specifically, while 26 percent of respondents reported having some college education or a degree, 23 percent of their successors were listed as being college students at the time of the survey. Forty-five percent of the respondents had been educated at a technical or trade school, while 37 percent of their successors either were working on the family's farm or managing their own farms. These numbers contradict the popular assumption that farming increasingly has become a discipline best learned in a formalized educational institution rather than through experiential lessons. However, given that the majority of non-student farm successors (62 percent) were employed outside of their family's operation, perhaps their knowledge is being gained in a wide variety of job experiences on and off the farm. This unconventional learning process seems to mirror the unconventional nature of farm business. As Errington argues about farming,

“Business ownership is combined with managerial control in the hands of business principals who are related.” This makes the farm family business very different from the many other businesses in market industrialised countries which have seen the progressive separation of ownership (often residing in the hands of shareholders) from managerial control. (*in press*, p. 1)

The Entry Process. Three-quarters of the survey participants operate farm businesses as the sole proprietors and more than half of their successors are employed elsewhere. This may complicate the process by which the successors assume management of these

farms—particularly when more than half of the respondents claimed to have not discussed their retirement plans with anyone within the family, legal representatives or other professionals (Figure 6).

FIG. 6. THOSE WITH WHOM FARMERS HAVE DISCUSSED THEIR RETIREMENT PLANS



For the 14 percent of successors currently employed full-time on the farm, the details of assuming sole or majority proprietorship may be worked out during the course of day-to-day farmer-successor interaction. As the survey results suggest, however, the current proprietors continue to assume responsibility for most of the farm operation decisions. ***Authority and Decision-Making.*** Half of the survey participants claimed to make decisions about their operation by themselves. The majority of these lone decisions (58 percent) concerned sources of financing and loan negotiations. Those decisions least likely to be decided by the farmer alone—the amount/quality of work and the method by which jobs were performed—seemed to relate to the unpredictable nature of farm work rather than the farmer's need to solicit a second opinion.

It is not surprising that a sole proprietor would be in the habit of assuming responsibility for making financial and legal decisions. It is a habit borne of years of experience and bolstered by the largely solitary nature of farm work.

The survey notes that only 10 percent of decisions were made by the successors alone. However, this tradition in turn may hamper the education a successor needs to ensure a smooth transition upon the farmer's retirement. The successor was most likely to handle employee supervision. For those decisions when farmer and successor collaborated, 33 percent were most influenced by the farmer.

National Comparison of Intra-Family Farm Succession

These survey results imply that Iowa farmers' visions of retirement and their farms' futures are similar to others in American agriculture. LaDue and Crispell's (1990) study of farming-together relationships, for example, confirm farmers' heavy reliance upon

their sons to inherit the operation and keep the farm within the family. However, there are few comparisons of American farmers' retirement plans with those in other countries. Following is a look at British, French and Canadian farm families and the strategies commonly employed during the process of farm succession.

Errington's Study of Intergenerational Transfer. In the 1990s, University of Plymouth (UK) professor Andrew Errington studied methods of farm transfer between familial generations and compared these methods among England, France and Canada. His results were published in 1998 and 1999 with an additional article currently under consideration for publication. Errington's findings are significant not only because they illuminate farm succession differences across continents and within the UK Dominion, but because they provide a clearer understanding of the extent to which these differences are influenced culturally. Errington makes several points in the conclusion of his 1999 article that suggest opportune places for comparison with American farmers' retirement trends.

Length of Semi-Retirement. Rather than abruptly distinguishing between work as it exists on the farm and retirement as the cessation of such work, Errington notes that British and Canadian farmers, unlike French farmers, are more likely to undertake a lengthy process of semi-retirement. He muses that this difference may be ascribed to the smaller size of French farms, which could prohibit co-existence of the farmer and successor on the operation, or France's lucrative state retirement pensions.

Meanwhile, as noted earlier, the survey of Iowa farmers shows that 14 percent of farmers currently worked alongside their successors and within these relationships, over half of the managerial decisions continued to be made solely by the farmer. This yen for

prolonging control over the operation might suggest that American farmers possess a similar preference for semi-retirement. Considering that almost three-quarters of the survey respondents intended to draw some income from their farms after they had retired (as opposed to selling their land and livestock altogether), it might be concluded that letting go of the farm cannot be defined with a work/retirement binary.

Managerial Issues During Transfer. Errington notes that British farmers take much more time to complete the process of farm succession than farms in Canada and France, perhaps due to the smaller size of French farms and the tendency for Canadian successors to be occupied off the farm, often in agriculture-related activities. Using what he terms the “succession ladder,” Errington explains that a successor’s increasing authority during a farm transfer is represented by the type of decisions (each “rung” on the ladder) he is allowed to make and the extent to which he makes these decisions sans collaboration with the farmer. The ladder’s rungs, from most to least authoritative, are represented as technical, tactical, strategic planning, supervisory/managerial, financial, and most importantly, what Errington calls “control of the purse strings” (1999). French and Canadian successors both move fairly rapidly up this ladder, while British successors only gradually achieve increasing amounts of control.

American farm transfers appear to most resemble England’s. As noted earlier, the majority (58 percent) of financial decisions—the top “rungs” of the succession ladder—continue to be made solely by those farmers while working side-by-side with their successors. Interestingly, the majority of decisions made solely by the successor (supervising employees) placed them in the *middle* of the ladder; they are not being relegated entirely to low-rung technical decisions.

Sources of Retirement Income. Both the Beginning Farmer Center and Errington distinguished between the semi-retired and fully-retired farmers' retirement income sources. Surprisingly, the data suggest a major difference not between fully-retired American farmers and those of Errington's survey, but between North American and European farmers. Compared to their British and French counterparts, many more American and Canadian farmers eyeing full retirement expected the sale of their farms to provide income. Furthermore, American, Canadian and British retirees expected their farm sales to provide a greater proportion of their income (25 percent among all three nationalities) than did European, fully-retired farmers. Perhaps American and Dominion government pensions contributed to this difference.

Respondents with plans for semi-retirement, however, were more alike in the two surveys. Although American and Canadian farmers in this category continued to anticipate selling their farms for income, Errington found that semi-retired farmers, especially older respondents, demonstrated a greater reliance upon government pensions. Errington suggests that "the expansion of private pension schemes among the farming community in more recent years" (1999) may account for this trend.

Implications for Iowa Farmers

After years of hard work and dedication to their operations, most Iowa farmers hope to retire some day. Unfortunately, the Beginning Farmer Center's survey suggests that that day will take many of them by surprise. The majority of farmers offer no evidence of action plans for retirement, and have only a few years remaining to develop such strategies. Even those farmers who have broached the issue of retirement have done

so only with family members, as opposed to outside sources who could assist in developing financial portfolios, IRAs, etc.

Nor do family discussions appear to help the process of farm transfer among generations. The small number of farmers who have chosen a successor nonetheless continue to hold onto their farms or, at the very least, are in the midst of transferring the operation to the successor. While some scholars believe these data demonstrate farmers' recognition of the shift from production- to management-based farming, survey respondents' managerial and decision-making behaviors suggest that farmers also are simply reluctant to give up the authority they have worked so hard to establish.

These trends in estate planning and farm succession appear to be international. Errington's studies (1998, 1999) suggest that American and Dominion (excluding Quebec) farmers have approached retirement slowly and pass authority to their successors with equal deliberation. These farmers also tend to rely more heavily upon government subsidies and their own farms for retirement income, whereas European and Quebec farmers move more quickly into the farm transfer and retirement processes.

Perhaps, then, the correlation among government involvement, farm transfer and estate planning warrants further scrutiny. Ironically, farmers who have benefited from substantial government intervention during their careers may, once their careers have ended, find themselves in a situation without solid financial support. Furthermore, this problem is bound to intensify with time, as the average age of Iowa's farmers rises each year. Because our state's agricultural stability relies heavily upon the survival of farm operations, our farmers in turn require the support and resources that will assist them in retirement and transfer of their farms to the next generation.

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