Parents' Retirement Savings the Achilles Heel of Succession Planning

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As a farm couple, handing over the family farm is one of the hardest things you will ever do. Failing to save enough money to support yourselves comfortably when you retire will only make the succession process harder.

Inadequate retirement savings can be the Achilles heel of even the best succession plan. If a farm couple fails to make sure they are financially secure, the whole succession process is like a house of cards—vulnerable to collapse.

Many parents worry about getting their children through college and forget to plan for their own retirement. That is a big mistake, one that may be impossible to overcome if put off until too late in life.

For succession to be successful, all the strings must be cut. That means parents cannot rely on their children or the farm for money after retirement. When they hand over the farm, they must have enough money to support themselves for the rest of their lives.

Children need to know their parents are financially secure if they are to truly take over the farm and run it to the best of their ability. They need to know that neither their performance, financial and management decisions, or mistakes will jeopardize their parents’ enjoyment of their golden years.

Insufficient retirement savings puts extra pressure on both parents and children and the family relationships. Instead of enjoying retirement, parents are inclined to hover over their successor and make sure they are not expanding too quickly or making changes they feel are too risky. The successor ends up feeling they are being held back by overly-conservative parents who do not trust their judgment. At the same time, they may also feel they are expected to make extra money to look after the parents.
Ideally, parents should have financial security that allows the children to simply "look after goose that lays the golden egg," says Burnaby Lake Greenhouses co-owner Herb Van Der Ende. Like their father, the three Van Der Ende brothers each have business interests which are separate from the family's potted plant business. Hopefully, those enterprises will provide for them so that the next generation will be free to run the greenhouse business autonomously.

Saving enough money to become independently wealthy is difficult, acknowledges Van Der Ende. It's the age-old conundrum of entrepreneurism. "In order to remain efficient and be competitive in the world marketplace, you have to keep reinvesting in the business."

Saving money for retirement may be difficult when you're struggling to keep the farm afloat. The secret is to start early.

In his book "The Wealthy Barber," David Chilton encourages people to "pay themselves first." He recommends putting 10 percent of one's take-home pay aside. It can be put into a retirement savings plan, life insurance plan, another business venture, or real estate that will appreciate or provide retirement income.

For farmers who are inclined to pour every penny back into their farm, that is good advice. Their children will be far better off with a slightly smaller farm, but no parents to look after than they will be with a big farm and the onerous responsibility of their parents' welfare.

Farmers not making enough money to set some aside should re-evaluate what they're doing. If passing down the farm requires either the parents or the children to make a big sacrifice, then drastic changes may be required.

There are at least two types of business arrangement rural families might consider to facilitate bringing young people into the business. Spin-off arrangements are one where the younger party develops a separate operation after working for a time with the parents. Sharing of machinery, labor, and experience makes the arrangement attractive to both parties.

Multi-person arrangements allow the younger party to provide labor, capital, and management in return for an ownership share of the common operation down the road.

In either type of arrangement planning for the retirement of the parents can making sure adequate financial resources are available when needed can be build into the agreement. Issues of fairness and equity should also be addressed in any formal agreement.

When it comes to managing money and planning for the future, it is important to set the kind of example you would like your children to follow. You can hardly expect your children to manage money and the farm with a view to the future if you do not.

Being truly committed to ensuring that your family farm endures for future generations likely means taking a little money out now and investing it wisely in something else so that successors will be able to take over the farm unencumbered.
Suggestions for Further Reading:


1. Parents cannot rely on children or the ranch after retirement
2. Parents should have financial security that allows children to continue on their own
3. Children need to know they are welcome to take ownership
4. Be committed to seeing that your family ranch endures for future generations