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US. Farm Succession Plans and the Process of Transferring Land Ownership

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U.S. Farm Succession Plans and the Process of Transferring Land Ownership

J. Michael Harris and Ashok K. Mishra¹

Introduction

Policymakers, local leaders, and rural communities have a direct stake in the economic wellbeing of farmers and local agricultural businesses and have expressed a keen interest in assessing the impact of farm succession on the growth and survival of farm businesses. Furthermore, concerns over the aging of current farm operators generates increased interest about who has succession plans, who is going to retire, and how land is going to be transferred to the next generation.

Farm succession is a key factor in the determination of industry structure and the total number of farmers. Succession also has implications for farm families that depend heavily on intergenerational succession since U. S. family farms make up 98 percent of U.S. farms and produce 85 percent of production. The transition process often involves both farm business succession and farm operator retirement in concert with transfer of farm ownership, management, and control.

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Objectives

The primary objective of this research is to provide recent information on farm business operator's retirement plans, succession plans, and how transitioning farms with succession plans will or will not transfer land ownership. Specific objectives include providing the following estimates.

- The proportion of U.S farm operators with succession plans,
- The proportion of U.S. farm operators planning to retire in the short term, and,
- The proportion of acreage by types of land transfers by U.S. farm operators with succession plans who are planning to retire in the short term.

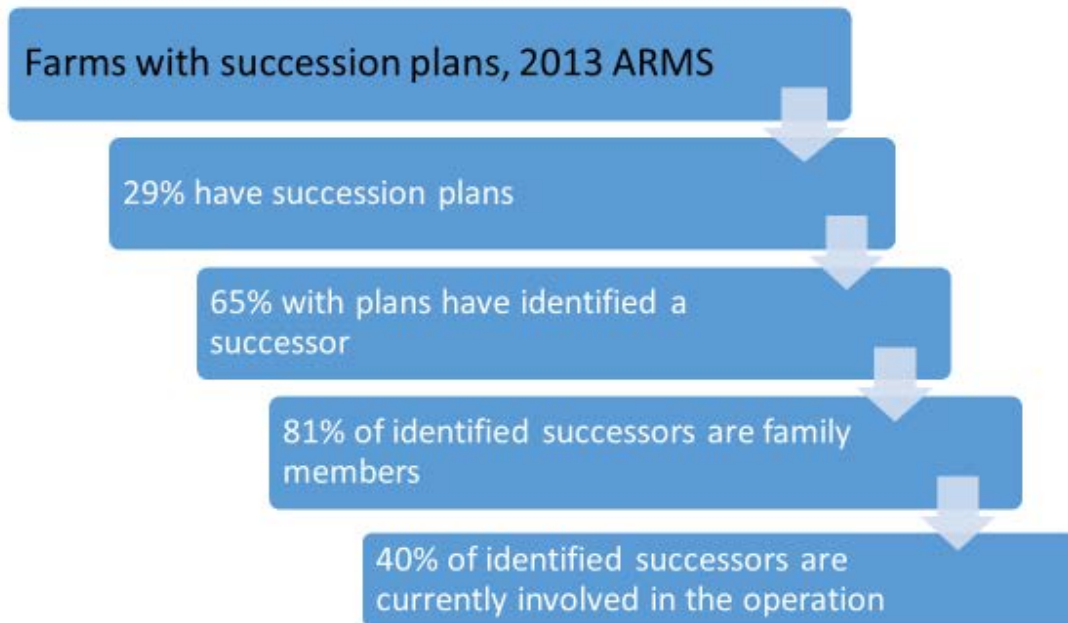
Method

Estimates are generated from USDA's Agricultural Resource Management Survey (ARMS) conducted in 2013 and the 2014 Tenure, Ownership, and Transition of Agricultural Land (TOTAL) survey. Techniques used to analyze these surveys are based on complex survey design techniques where samples are often stratified by variables of interest to ensure a balanced number of respondents for each category of the variable. Post-survey weighting is applied to correct for unequal selection probabilities and nonresponse.

Results and discussion

Succession plans

Agricultural Resource Management Survey (ARMS) data indicates that 29 percent of U.S. farms had a succession plan in 2013 and 65 percent of these farm businesses indicate that they have designated a family member as the successor. Eighty-one percent of identified successors are family members and 40 percent are currently involved in the farm operation. Slightly more than half of the farms that have succession plans are older, small in terms of gross sales, and made up of beef cattle, general crops, other livestock, and corn farms. Some farms with succession plans designate a non-family member as the successor. Both family and non-family successors will become next generation farmers.



Note: weighted estimates

Source: USDA Agricultural Resource Management Survey, conducted jointly by ERS and NASS, 2013

Succession planning usually denotes the gradual transfer of ownership, control, and participation in the farm business, as opposed to estate planning triggered by the primary operator's (or owner's) death. It can also be a limited transfer of ownership such as inheritance or a trust.

The intergenerational transfer process typically involves three complex and interrelated factors. First, there may be a transfer of ownership of farm assets. Second, there may be a transfer of control over these assets in terms of being a decision-maker. Third, there may be a transfer of participation in the revenues of the farm business as either retirement income for an older farmer or a source of additional income for all farm heirs. In some cases, a succession may involve all three factors.

The motivations for the transfer of assets and wealth; altruism and exchange, are discussed in previous research (Cox, 1987). In the altruistic framework, a benevolent individual (usually a parent) cares about the well-being of other individuals (usually children). In the exchange model the parent makes a transfer to the children in return for services received from them. A third approach treats family members as altruistic where transfers represent payments made in exchange for services provided by family members.

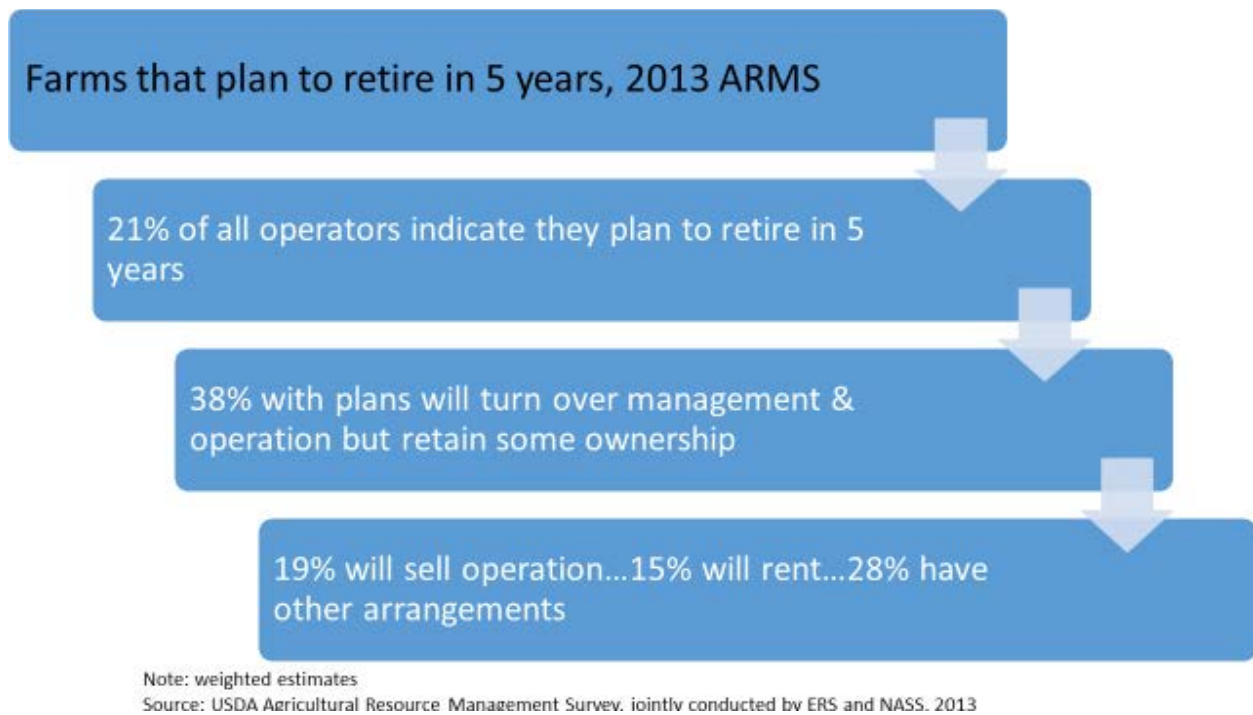
Retirement

Retirement plans are an integral part of farm transition and succession. The average U.S. farmer is 58 years old according to USDA's *2012 Agricultural Census*. Hoppe (2014) has also found that nearly one third of U.S. farm operators are 65 years or older. The average age of farmers

raises concerns about replacements for existing farmers as they age and withdraw from farming. According to Hoppe, some older farmers report that they have retired and/or effectively left farming. Older farmers (classified as older operators in survey data) are made up of two components: those who are retired (12 percent of all farmers) and those who are not (20 percent). The eventual exit of older farmers, however, is not as large a problem as it may seem because substantial numbers of people enter farming every year and all of them are not necessarily young, which means not all transfers are across a significant generation gap.

How “retired” are the 12 percent mentioned above? Included in this group are many rural residence farms who fit into Foskey’s (2002) third category of farmer retirement. He describes three categories of retirement: 1) retirement where the operator reduces production but provides labor, management, and control; 2) full retirement; where the operator gives up management, control, and provides no labor to the farm; and 3) retirement to farming where the operator enters farming later in life after retirement from another career.

ARMS 2013 data provides insight into operators plans to retire in the short-term. Survey results indicate 21 percent of U.S. farm business operators plan to retire in the next five years. The preponderance of farms that plan to retire are both small in terms of gross sales and made up of beef cattle, general crops, other livestock, and corn farms in 2013.

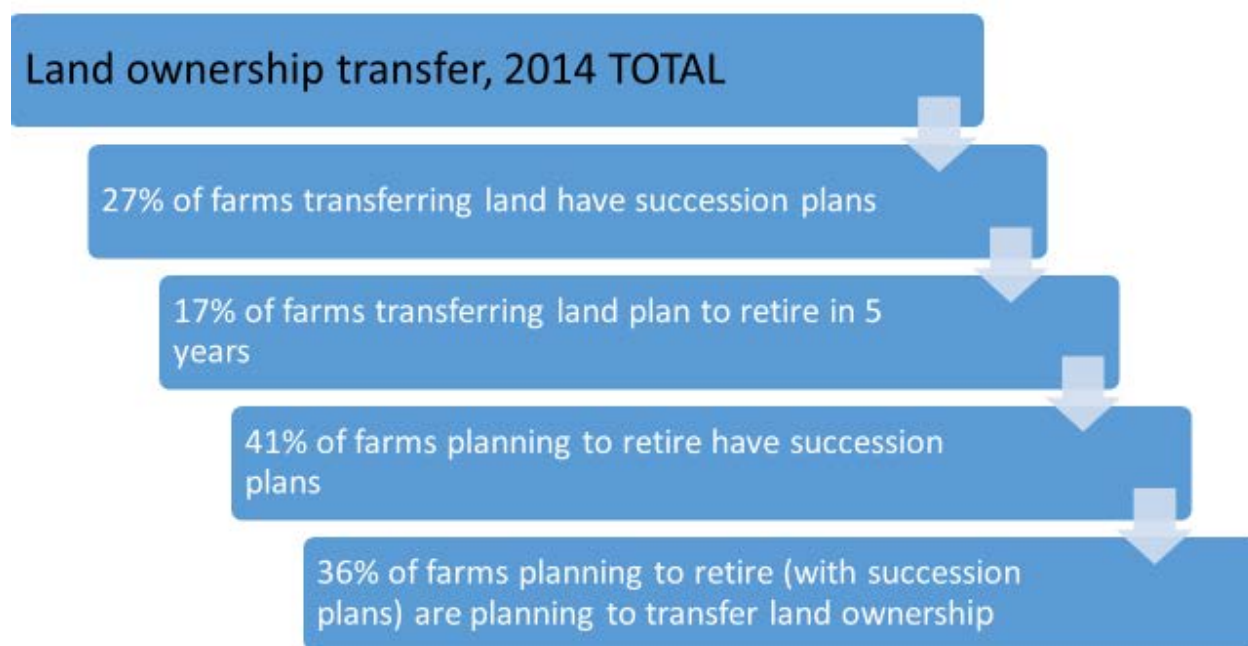


Other state surveys and polls report similar results. For example, Arbuckle and Miller (2015) recently reported results from a 2014 Iowa farm poll that indicates slightly more than 14 percent of Iowa (a large farm production state) farmers’ report that they will retire with 5 years and the same number report that they will retire in 6-10 years. In a 2011 Michigan survey, slightly more than 15 percent plan to retire in 5 years (Miller and Cocciarelli, 2012).

U.S. farmers also look at retirement differently than other salaried persons planning to retire. Farmers differ in the degree of ownership, management, and control they retain in retirement. According to the 2013 Agricultural Resource Management Survey, 38 percent of respondents who plan to retire in five years indicated that at that time they plan to turn over management and control of their operations but retain some ownership. About 19 percent plan to sell their operation when they retire and 15 percent plan to rent their operations. Twenty-eight percent have other plans.

Succession and land transfer

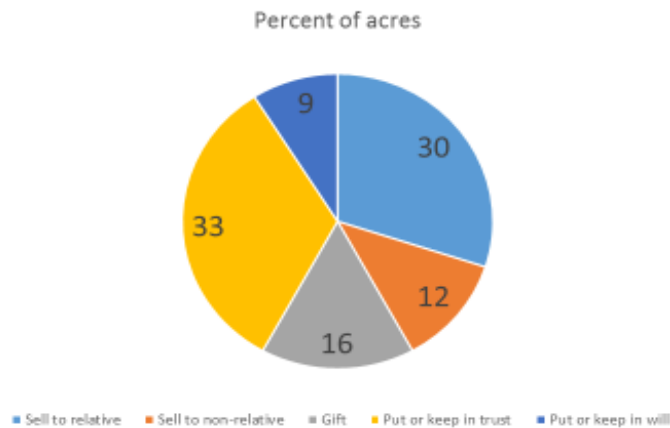
The 2014 TOTAL survey asked operator landlords about their plans for land transfer (in the next five years). These transfers include both owned acreage farmed by the operation and owned land that is rented out to other operators. Questions about succession plans and plans to retire in five years are also included in the survey. As mentioned above, some operators report they will rent out land after retirement, while others will transfer ownership. Twenty-seven percent of operators planning land ownership transfers in five years have succession plans while only 17 percent plan to retire in 5 years. Closer examination of operators planning to retire in 5 years reveals that 41 percent have succession plans. When we look at farms planning to retire in the short term that have succession plans, we find that 36 percent of these farms are planning to transfer land ownership.



Note: Weighted estimates-- land transfers include sale to relative, sell to non-relative, gift, trust, and in wills
Source: USDA, ERS and NASS, Tenure, Ownership, and Transition of Agricultural Land Survey (TOTAL), 2014

TOTAL (2014) data can also be used to examine how operators with succession plans intend to transfer land ownership. Several forms of legal transfer methods can be used for transfer. The data provide information on the land transfer plans of operators that have succession plans. We focus on operators who are planning to retire within five years and have succession plans. The data indicate that the largest share of land (33 percent) will be placed in trust followed by 30 percent that will be sold to relatives. Sixteen percent will be transferred by gift, 12 percent will be sold to non-relatives while 9 percent will be put in or kept in wills. While we cannot assume that all of these transfers are generational, these estimates provide us with possible transfer alternatives by operators with succession plans.

Method of transfer within five years, by operators retiring (in five years) and with a succession plan, 2014



Note: weighted estimates; five year estimate for land transfer in wills
Source: USDA, ERS and NASS, Tenure, Ownership, and transition of Agricultural Land Survey, 2014

Conclusions

- ARMS (2013) data suggest that nearly 30 percent of U.S. farms have succession plans. Over 80 percent of those with succession plan indicate that they have designated a family member as successor. Forty percent of designated successors are currently working on the farms and will eventually lead, manage, and/or operate these farms.
- Twenty-one percent of ARMS farms (2013) indicate they intend to retire in 5 years. Thirty-eight percent of farms indicating retirement in 5 years plan to turn over management and operation of their farm business but retain some ownership. Only 19% percent will sell and 15 % will rent.
- According to the TOTAL Survey, 36 percent of farms transferring land ownership and retiring in five years have succession plans. Forty-two percent of these ownership transfers will occur as market sales. However, 30 percent of transferred acreage is planned to be sold to relatives and 58% is planned to be transferred by some form of legal transfer. It is not clear from the data that the latter transfers are solely to the next generation.

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