

Agribusiness solutions

# Know your buyer, **grow** **your sales**

Marketing guide

**The agriculture market offers attractive opportunities for financial service professionals.** No matter the type of farm—livestock, crops, orchards, or something else—they have one thing in common: Most are family farms with unique ownership transitions.

They may have complicated estates, unconventional approaches to retirement, and hopes that their legacy lives on. Life insurance can be an important part of the solution for these distinct planning needs.

**Consider these statistics that reinforce the need for life insurance in this market:**



**Family farms** account for **98%** of U.S. farms.<sup>1</sup>



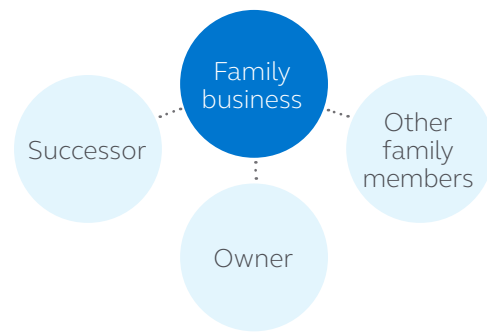
**Only 12%** of **second-generation** farm operations make it to the third generation.<sup>2</sup>



**53%** of the principal operators planning to retire in the next five years, don't have a **succession plan.**<sup>1</sup>

<sup>1</sup> USDA Economic Research Service: America's Diverse Family Farms, 2020 Edition, December 2020.

<sup>2</sup> "Keeping farms in the family for future generations", <https://www.farmprogress.com/farm-life/keeping-farms-in-the-family-for-future-generations>, updated February 2021.



**Owners often must balance competing needs:**

- Leave healthy business to support itself and successor
- Provide sufficient retirement income for exiting owner
- Assure other family members of equitable inheritance

**Regardless of the type of farm or ranch operation they own, you'll often find they are faced with the same difficult questions that all too often go unanswered:**

- Can I protect my legacy and still provide for my family?
- How will my operation change when I'm gone?
- Can I protect my assets now, leave the operation whole for my successor, and still be fair to my kids?
- What can I do to minimize taxes when I pass the farm on to the next generation?

**As a result of these unanswered questions, there's a big opportunity with farmers and ranchers because they need to:**

- Cover their debt with the bank
- Plan for their business transition, in both planned and unplanned situations
- Take care of estate tax issues
- Equalize their estate to be fair to successors and their family, all while keeping peace among everyone

Life insurance can be a critical tool in their overall financial plan. It's really one of the only tools that can help them meet all of these needs without breaking up the farm or ranch. And for many, that's the ultimate goal. However, taking care of their financial planning needs is often outside of their comfort zone.

**You can help**

All of these questions and important decisions can feel daunting for farmers and ranchers. And they turn to experienced professionals like you to understand their situation. You'll work together to identify their biggest needs and create a plan that helps them live their best life with more peace of mind.

**But with opportunities like this in the agriculture market comes the need to understand this unique buyer, their distinct needs, and how your solutions fit in.**



# Getting started

## **First, understand the buyer**

Farmers and ranchers are atypical business owners with atypical business needs. This guide outlines buyer characteristics that can help you better understand the decision makers in the agriculture industry. Once you do, you can start building strong ties to the community and other advisors that serve the ag industry.

It's important to remember that relationships built on confidence and trust are very valuable to this buyer, as they don't make changes without good reason. In this market, you'll be best served if you join forces with financial services professionals already working with the owner, instead of attempting to replace someone up front. In each situation, pinpoint the value you bring and focus on your role as that specific resource. Remember, you have your Principal® team behind you, with industry-specific tools, analysis, and advice.



## **Second, understand their needs and the common strategies that address them**

Help them to identify their present concerns, any hidden pitfalls, and their goals for the future. Your solutions will likely fall within the four key areas described in this guide: business organizations, succession strategies, legacy and estate planning, and retirement income. Asking the insightful questions in each section will help you demonstrate your expertise and lead you to opportunities. Then, you can develop a custom plan that can help prepare your new client for whatever challenges lie ahead — planned or unplanned.



# Understanding the buyer

To build trust and demonstrate expertise, you must relate to the unique situation of the decision maker. These eight buyer characteristics can help you get started.

## 1 Legacy in the soil

Many farm and ranch owners feel a strong emotional tie to the land as a tangible connection to their family, both past and present. Protecting the land, and therefore the family legacy, is often their highest priority.

### Take action

- Ask about the history of their operation to evoke pride and spark conversation
- Talk about common liquidation threats that could force a public auction, like federal estate taxes, nursing home bills, and insufficient cash
- Share relatable statistics, such as the national average cost of a private room for nursing home care is \$92,376 per year<sup>3</sup>
- Help weigh options—when faced with liquidation of their legacy versus investing to preserve it, they'll typically view the additional capital outlay as “the lesser of two evils”

Finding solutions that protect their land, and legacy, can be the key to getting them emotionally invested.

## 2 Helping create certainty in uncertain events

Farmers and ranchers frequently survive wild swings in annual revenue because of variables outside their control. They also have a strong sense of independence, appreciating attempts to create certainty in uncertain events, like death, disability, or divorce. Buy-sell planning can help them take control of the fate of their operation, despite the unknowns.

### Take action

- Ask owners how they have prepared for the succession of their operation and what their ideal scenario might be
- Ask about their operation and help them determine the “who, what, where, how, and why” of their business transition

They often can predetermine their operation's fate if you give them the control they seek.

<sup>3</sup> Cost of a private room. Source: <https://acl.gov/ltc/costs-and-who-pays/costs-of-care> (as of 2/18/2020)

### 3 Growth mode versus preservation mode

Owners often reinvest gross profits into a business to reduce income taxes with deductions. While this approach can help them become debt-free and grow in value, they may reach the point of diminishing returns when federal estate taxes threaten additional growth. This can be particularly problematic given the current federal estate tax threshold is scheduled to sunset to approximately half of its current level in 2026. Redirect their pattern of growth and turn their focus to preservation and planning instead, so they can leave more assets to their heirs.

#### Take action

- Use the sample estate tax exposure calculator to demonstrate the point of diminishing return

Continued reinvestment in the operation could cause federal estate tax issues.

### 4 Land rich, cash poor

Many farmers and ranchers may not keep large amounts of liquid assets, but that doesn't mean they don't have a need for financial solutions. You just need to cater to fluctuating cash flow because their income is unpredictable, based on whenever their seasonal product is sold. This often results in large sums coming in at different times of the year. Income is often immediately reinvested to pay off debt, upgrade equipment, build better facilities, or buy next year's inputs. By positioning financial solutions as a necessary investment in carrying on the family business, they can better align their income and expenses with a planning solution.

#### Take action

- Learn the rhythm of their revenue and demonstrate the benefits that a financial planning solution can offer
- Schedule meetings to accommodate their unique seasons so you don't disturb them during their busiest times
- Align premium payments with their typical cash flow

Position your financial solutions so they complement the owner's unique income cycle.

### 5 Speak their financial language

Often times, they're focused on their day-to-day operations rather than the planning aspect of their future. They'll better understand your solutions if you take the same approach. For example, break premium costs down into an amount per unit, per year. Everyday expressions can help too. For example, "An ounce of prevention is worth a pound of cure" explains how succession planning may help avoid litigation or financial complications. "Good fences make good neighbors" illustrates how a proactive plan to divide assets keeps peace in the family.

#### Take action

- Learn what type of daily language they use and apply it when you calculate and explain new concepts (e.g., use things like cost of fertilizer per gallon and price of fruit per bushel, instead of rate of return on assets and dividends)
- Find a few things you can use to relate to the owner, instead of trying to be fluent in every aspect of their operation

Financial solutions explained with their language and expressions will better illustrate how you can help.

## 6 Farmers and ranchers don't retire

They may slow down or transfer duties in the operation, but they don't retire. So don't lead with a conversation about retirement like you would with others who work one day and then not the next. A planned transition helps them feel more comfortable about passing down day-to-day responsibilities and freeing up time to do the things they've always put off.

### Take action

- Talk about retirement as a transition, and help them focus on the value it brings
- Ask about the things they want to do, but can't because they just couldn't get away, like that trip they always promised to take with their spouse

Talk about transitioning duties rather than retirement to help them discuss their future plans.

## 7 Blurred lines between business and personal finances

There often isn't a clear separation between business assets and personal assets. Most owners perceive their business as a lifestyle choice, not an occupation. They also perceive their land as a family heirloom, not an asset. As a result, buy-sell planning is often done within their estate plan, through wills and trusts, rather than through a formal buy-sell agreement. Usually, they're unsure how to implement true succession plans, both legally and financially.

### Take action

- Discuss how they've managed this distinction in the past, and how that will work in the future
- Utilize the agribusiness solutions fact finder as a good tool for gathering important information

Look for hidden buy-sell revisions in estate documents.

## 8 The power of the spouse

Often times, one spouse manages and controls the operations. But their partner can be your biggest advocate because they may better understand the value in your solutions. They might be more attuned to preserving family relationships as well as the operation. So, when you help their partner understand how this process is going to keep the family intact, you'll have an ally.

### Take action

- Include the spouse in the conversations and ask for their thoughts, hopes, and visions
- Discuss the importance of keeping peace in the family and how your solutions can help

Don't underestimate the power of the farmer or rancher's spouse.



# Common strategies to get started

You'll likely find life insurance-based solutions fall within four key areas. Understanding your client's situation in each of these needs will help you tailor a plan that helps them live their best life now, and plan for whatever tomorrow brings.



## Business organizations

- Entity comparison
- Liability protection
- Discounting techniques



## Succession strategies

- Buy-sell arrangements
- Succession plan funding
- Key person protection
- Key person retention



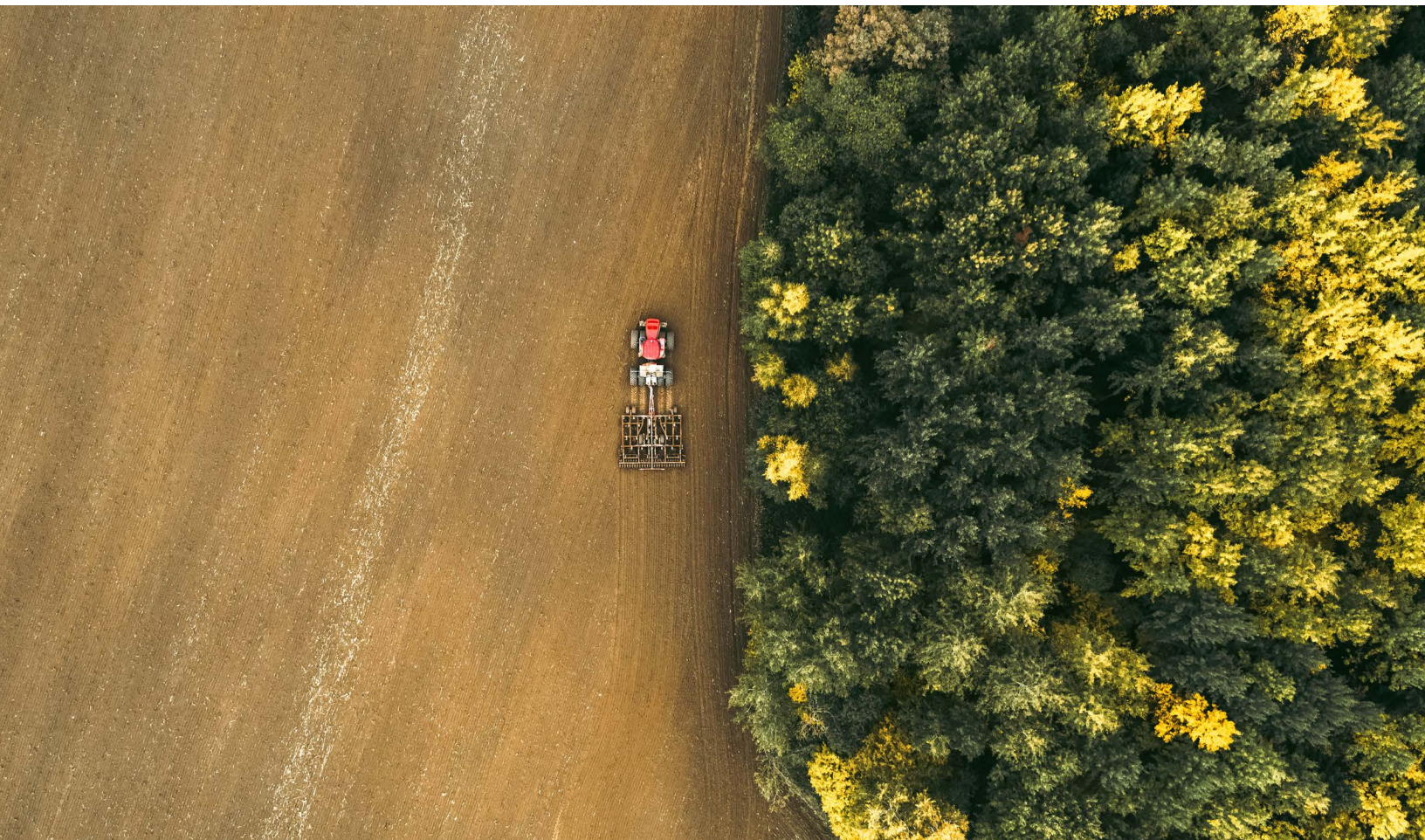
## Legacy and estate planning

- Wills & trusts
- Inheritance equalization
- Estate taxes
- Gifting techniques



## Retirement income

- Retirement analysis
- Supplemental income
- Chronic illness protection





# Business organizations

The owner has likely had this conversation already, as the decision is generally discussed with legal and tax advisors. Typically, they've established a specific formal structure type based on pros and cons affecting liability, taxes, and control for them, their family, and the business partners. Your role is to bring resources that help them review their business structure and consider how it will affect their overall plan, including protection needs, financial goals, and succession planning.

## Conversation topics:

- Does your business structure protect personal assets from business liabilities?
- How does your business structure affect your income taxes?

## Succession strategies

Entity type	Sole proprietorship	General partnership	Family limited partnership	S Corporation	C Corporation	Limited Liability Company (LLC)
Maximum number of owners	1	Unlimited	Unlimited	100	Unlimited	Varies*
Liability	Unlimited personal	Unlimited personal	Unlimited for general partners	Limited to business assets	Limited to business assets	Limited to business assets
Control	Sole owner	General partners	General partners	Voting shareholders	Voting shareholders	Managing members
Allocation of profits	All to sole owner	Allocated by agreement	Allocated by agreement	Pro rata to shareholders	Taxed to corporation	Varies*
Units to transfer	None	Partnership interests	Limited partnership interests	Shares	Shares	Membership units
Income taxation	Taxed to individual	Passed through to partners	Passed through to partners	Passed through to shareholders	Double taxation	Varies*

\* Limited Liability Companies can elect to be taxed as Partnerships, S Corporations, or C Corporations. Single member LLCs who have elected partnership will be taxed as a sole proprietorship. The attributes of an LLC will depend on how it has elected to be taxed.

# Succession strategies

Some transitions can be anticipated, like a planned retirement. Other events are less predictable, such as an untimely death or disability. Help your clients prepare for both with a formal succession plan that increases the next generation's chance of success. A buy-sell arrangement can help by clarifying timelines for planned transition events and predetermining outcomes for unexpected ones such as death, disability, or divorce. It can also help to ensure that proper funding is available to carry out the plan, even when the timing of the event is unknown.

The most appropriate type of buy-sell arrangement depends upon the organizational structure of their operation, number of owners, timelines, and goals. If an ounce of prevention is worth a pound of cure, imagine how effective a buy-sell arrangement could be – whether it's included in the owners' estate plans or outlined in separate buy-sell agreements.

## **Conversation topics:**

- Does your buy-sell arrangement ensure the continuation of your operation to the next generation?
- Does your buy-sell arrangement predetermine outcomes for common events, such as death, disability, divorce, bankruptcy, and retirement?
- Does your buy-sell arrangement make the purchase price clear and fair?
- Can your successor afford his or her purchase obligation under the buy-sell arrangement?

# Legacy and estate planning

Deciding where their assets go when they're gone is a tough and important decision to make. You can help them avoid family conflict and litigation by urging them to gather input, explain their decisions, equalize the estate, and leave a plan that is easy to execute.

Tax and legal advisors typically decide which estate planning techniques are going to best meet their needs. It may include a combination of wills, trusts, and powers of attorney. Your role will be to make sure they have the financial support it takes to execute the plan. Principal can help you ask the questions necessary to meet the needs of the plan, with the flexibility to change with their evolving goals and finances. Together, we'll cover your client's current concerns and provide options down the road, all while keeping the family intact.

## **Conversation starters:**

- Does your current estate plan avoid the publicity, expense, and delay issues associated with probate?
- Does your current estate plan minimize estate and inheritance taxes?
- Will your estate have to sell land or other assets to pay estate taxes?
- Will your assets be distributed as you instructed or will your heirs be left to figure it out themselves?

# Retirement income

Remember, farmers and ranchers often don't retire. They slow down. This means they'll need to shift income from the business to the successor who is now spending more time running the business. Planning for this change is an important component in the owner's personal retirement plan. You'll need to help them consider how Social Security, personal savings, income from rent or profit sharing, and qualified or nonqualified plans play a role in the timing of their transition. A retirement analysis can help identify potential income gaps and address any additional income needs.

## Conversation topics:

- Does the operation generate enough annual income to support you and the next generation?
- Will you need to sell assets to maintain your current income level?
- Will your health care/nursing home expenses drain your planned retirement income?

### Leaders trust leaders

You wouldn't entrust your loved ones' lives with just anyone. The same should be true for your clients' financial lives. The relationship between you, your clients, and Principal is one you can feel good about. We're here to help build, protect, and achieve financial dreams through solutions that can help your agriculture clients live their best lives.

And, it's not just about your clients, it's also about you. We understand that access to quality products and services, planning expertise, local sales support, and time-saving programs are important for your success. Trust our ability to deliver what you need before, during, and after the sale.

Our life insurance solutions have been protecting people for more than a century. With Principal, you can deliver a comprehensive strategy to meet the unique needs of farmers and ranchers – business organization, succession strategies, legacy and estate planning, and retirement income needs – all in one place.





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