Life after the farm

Financial experts explain how agribusiness owners can begin planning for retirement

FOR THE OWNERS of small to mid-sized businesses, retirement planning can become a complicated tug of war between reinvesting cash into your business and setting aside cash for your retirement. This doesn't even take into account the potential stress of understanding how to transition a business and to whom.

Susan Mehlman, director of Employee Benefit Services at Moss Adams LLP, and Ryan Franklin, a senior financial advisor with Moss Adams Wealth Advisors LLC, discuss how to begin the conversation and some of the most important considerations along the way, particularly for companies rooted in agriculture that often prioritize preserving family legacy.

Planning for retirement can feel daunting. How do you suggest a small or midsized business owner start planning for it?

RYAN: The first thing is to understand what retirement means for you. That unique definition will revolve around what you're going to spend based on what you plan to do in retirement. Are you going to travel? Do you have an expensive hobby? Once you define the kind of lifestyle you want to lead, you can work backwards from there to understand how much your retirement will cost and begin planning your withdrawal from the business.

SUSAN: There are also practical considerations such as health care, general living expenses, or possibly remodeling a home, among others, when you begin planning. Also keep in mind that the cost of retirement is a moving target and retirement questions are always complicated. A good transition process is critical to the success of a company and an owner's retirement.

How do you transition away from being a business owner?

SUSAN: If you don't have a clear successor taking over your business, you're obviously going to be working in that business longer, and your planning process may be prolonged.

RYAN: It's important to understand who will take over the business and when. For agricultural businesses, it's often family; but keep in mind that there's a process to transitioning a business in the sense that expertise, real assets and a number of other things need to be passed to the successor to ensure a business's future success. Unless it's an outright sale, an owner's retirement plan is directly linked to the continuing success of the business and will likely evolve as the business transitions.

There are three primary things to consider when you begin the planning process: ownership transition, management transition and your company's financial strength. Developing a plan to address each of these areas will make sure that you are in pretty good shape for retirement.

How soon should a business owner get started with planning retirement?

SUSAN: While the sooner the better is always the case when it comes to planning, it also makes sense to conduct annual assessments and set goals regardless of your age. There's been a lot of buzz lately about how Millennials and Gen X and Y are going to be in a better retirement situation compared to Baby Boomers and older Gen Xers, because automatic enrollment for retirement plans is now more prevalent. People are saving earlier and putting more aside. Each generation also has different views on retirement and how they want to spend their free time. Someone in the Baby Boomer generation, for example, might love their business and want to oversee and guide it, which can be a harder transition for the younger generation that's waiting to move up.

RYAN: An annual assessment and the process of setting goals can definitely help lend some clarity to a retirement vision. Someone who's young won't necessarily know what his or her retirement will look like. In my experience, the planning process usually happens when business owners are in their 50s. It's difficult to have clarity much earlier than that, because the next generation usually isn't old enough yet to know whether they'll have the aptitude or interest in taking over the family business.

What are some other trends you see according to generation?

SUSAN: When you ask people to describe themselves, their response can often be predicted according to their generation. It's fascinating because most Baby Boomers describe themselves with their job first — their identity is much more closely aligned with what they do for a living — while a Millennial might talk about hobbies and passions, which isn't necessarily related to a job.

RYAN: The idea that business and career define the Baby Boomer generation is even more significant for agriculture businesses. Many business owners grew up on or near their land and feel more connected to it. This might mean that a Baby Boomer continues to be involved in the business after retiring and then slowly steps away.

SUSAN: I also think ag business owners have a much stronger desire to pass the business down to the next generation. If you're an orchard owner, your business is all around you. It's what you see every day. For example, a business owner who makes widgets may not be as inclined to feel like their business is a family legacy.

How do you create a plan that considers your retirement wish list and the future of the business?

SUSAN: For most small business owners, their business is their wealth.

RYAN: One of the things I talk to people about is building a personal balance sheet. This is a hard concept for ag business owners because they typically reinvest personal dollars back into the business. This strategy pins the hope for a successful retirement entirely on the future success of the business.

The goal is to build personal wealth outside of a business so owners can stand on their own over time by carving off a little bit of a business's wealth to pay themselves as "vendors" without damaging the business. While this can improve your retirement prospects and the attractiveness of your business for potential successors or buyers — because they'll see how successful you are personally — it's also a huge challenge. Aside from whether or not a business owner is willing to set aside this money, there will also be years the business simply won't be able to support this plan.

What are the best resources to help guide someone through this entire process?

RYAN: You need to have a team of good advisors, such as a business attorney, an estate planning specialist — whether it's your attorney or a good CPA — and a financial planner.

SUSAN: I'm also seeing more families utilize someone like a wealth advisor to help them get on the same page as far as goals and vision. Most people don't talk about money — it's a touchy subject that can be very personal and scary. Through interviews and family meetings, an advisor can help make sure that everyone's views are heard and decipher what's best for the business, owner and family. Maybe one son isn't interested but the other is, for example. Or perhaps there are key management members who are more engaged and interested in taking over the business.

RYAN: I agree. It's important to have someone who can tie this together. If it isn't a wealth advisor, it could also be one of your advisors — your attorney or CPA — whom you trust.

Does a Trump presidency change how someone approaches their retirement plan?

RYAN: There are a lot of unknowns. Inflation is something people are talking about as well as rising interest rates, which would make a transition more expensive. Minimum wage is also going up in a number of states, which will definitely have an impact on small businesses — not just for employees, but also when it comes to the cost of supplies. We expect there to be tax reform legislation, but it isn't clear yet exactly what it will look like under the new administration.

SUSAN: Because of the uncertainty, it's even more important for individuals to reach out to their advisors and have more frequent communication regarding the potential impact to their business. It's a good idea to put together a roadmap based on today and also have a plan based on potential changes that may come up. You want to be on the forefront of this very fluid situation.

Is there anything practical you can offer that might help small to mid-sized businesses accommodate this fluid situation?

RYAN: Investing in technology — mobile apps or operational technology — is something that makes more and more sense as the cost of paying people continues to go up. Ag sometimes is reluctant to do that, but it's important. You have to be willing to invest in those tools along the way.

SUSAN: Using technology to get up-to-date information on governmental changes that may impact your business and retirement planning is important, and apps will definitely lead the way for information delivery. Some apps could also help you grow a loyal customer base and build your business faster, as well as communicate with employees.

Understand where you want to go and plan from there. I'll often hear clients say they need to do X. When I ask why, they don't know. Understand what you want, what you need, and if there are any gaps in your plan now (health care or family involvement, for example) or gaps in future plans, then reach out to your team of advisors. Maybe there's something you want and think might happen, but that equates to a gap in the plan now. Preparation is key, because if you don't know where to go, any road will take you.

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