

Module One Personal and Family Risks



MODULE 1**MANAGING FAMILY
AND PERSONAL RISK****LEARNING OBJECTIVES**

Given a discussion of planning in general and business planning in particular plus a list of resources, you will be able to:

- a) state the role of business planning in risk management
- b) list the general parts of a business plan
- c) locate at least one locally relevant source of business planning assistance

Given a format for developing a family budget and cashflow, participants will

- a) be encouraged to use it
- b) be able to state the risk management value of separating family budgeting from the business budget

Using the Risk Assessment and Strategy Form you will be able to:

- a) assess the catastrophic risks affecting families who are involved in family businesses and develop a list of strategies and tools to manage those risks.
- b) look at events impacting both the family and the business and chose different risk management strategies for each case

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As family farmers, we live in our factories with our families and we are the last segment of American industry to do so. This complicates managing our farming businesses. It complicates our ability to separate our family finances from our farm business finances so we can see which is supporting which and make good decisions.

Communicate, Communicate, Communicate

When we are around our families all day every day we often believe we are communicating because we talk all the time. It is important to set aside time to listen to each other, too. Sharing goals and dreams is not only a natural family activity but also a necessary one. Knowing what we each value and what we aspire to be enables us to better support each other in times of stress.

A Process of Planning

One way to help un-complicate the farm/family puzzle is to have a separate plan for both the family and the farm. In the first half of the 20th century, farm management was largely characterized by fine-tuning production and the costs and revenues associated with it. Holistic Management and Whole-farm Planning began to take hold in the 1980s. The emphasis of these latter disciplines is a systems approach that acknowledges the human element in the system. The farm family and their values are at the heart of these planning vehicles.

Setting Goals

Nationally known agriculture economist David Kohl has often spoken about his ten golden rules. His Rule #10 is as follows: "Have a mission and goal for your life and business." According to Kohl, 80 percent of all Americans have no goals, 16 percent have goals, but they are floating around in their head, and only 4 percent have written goals. Yet, he asserts history proves that those with written goals make nine times as much during their lifetime as those with no goals.

Setting goals may require some dreaming. Ask yourself:

If money were no object, what would your farm or ranch look like?

What would your family be doing?

How involved would you be with your community? Your Church?

What shape would your land resource be in for the next generation?

Would the rest of your family want the same things? Now may be the time to ask.

Take into consideration the personal goals of other family members. You may have a budding author or artist, doctor or lawyer, farmer or rancher in the group. Your farm or ranch business should be a tool to help your family achieve their values and vision. Look at where you are today and where you want to be. Make a realistic plan to get between them.

By identifying and prioritizing your farm and family goals in each category, you can see if there are goals competing for scarce resources. Brainstorming with the family will help clarify the compromises that may need to be made. Once your goals are written down, turn to an action plan to move toward them. Look at the longest timeframes first and break them down. Where do you need to be at the midway point to the goal financially, and interims of your skill level? What do you need to do this year to have those things at the midpoint?

Have and Use a Written Business Plan

Honor your family values by writing and using a business plan. If something happens to the primary breadwinner or primary farmer in the family, how will anyone else know how to run the farm business? If the business needs to be sold and it is still profitable, a written business plan with financial statements may allow the business to be sold intact for more than it would bring if it were sold in pieces. Part of a written business plan should be a succession plan for an orderly transition out of the business. Do you want the

farm to go to the next generation? Is it to be sold to fund your retirement?

Farm Family Finances

In her piece on Taking Charge of the Family Finances, Debra Pankow, Family Financial Management Specialist with the North Dakota State University Extension Service, lists the following ways farm family finances differ from those of other families:

1. Income is irregular and uncertain. Except for some enterprises like dairy and poultry production, farm income fluctuates widely and is often received in a few very large amounts. Prices and costs can vary widely from projected levels.
2. Household expenditures are small when compared to farm expenses. Many farm couples find it difficult to control family living expenses when they spend large amounts for the farm businesses.
3. Housing expenses are often lower than for nonfarm families. For many farmers, a large portion of their housing costs (mortgage payment, household operations, utility bills) are commingled with business expenses and included in the farm rent or mortgage payment.
4. Food expenditures may be lower than for nonfarm families. Family living from the farm — meat, vegetables and fruits — can cut grocery bills considerably. However, in families with a lot of in-town activities, there may be a considerable amount of food eaten away from home, adding greater expense to the food budget.
5. Insurance and health costs are usually higher. There is typically no employer to pay a portion of the insurance premiums.
6. Farm and home compete for surplus cash. It is often difficult to determine whether to reinvest farm business profits back into the farm business or to make expenditures on the home or the family. Decisions concerning

farm and family goals should be made by the entire family.

7. Business items are tax deductible. Some expenses, such as vehicles, office equipment, machinery, and travel expenses can be at least partially tax deductible when used for the farm business even though they are used for family purposes as well.
8. Although transportation expenses are often related to the farm business and can be tax deductible, these expenses are often higher for rural families because of the greater distances they must travel to reach community services.

Create a Family Cashflow Budget

Now that you know where you want to go (your goals), you will need to make a financial plan to help you get there. A family cashflow budget shows you the estimated timing and amount of both income and expenditures for your family in the same way a cashflow budget for your farm shows business income and expenditures.

Like business expenses, family living expenses can be separated into two categories — fixed and variable.

Suggestion: Keep Separate Accounts

While the USDA Farm Service Agency budgets still reflect the family living expenses in the farm budget, budgeting, financial recordkeeping and income tax preparation are all simpler if a farm business budget and bank account is set up separately from the family budget and bank account. Household expenditures can be monitored much more easily this way. Separate accounts have become more important with recent changes in tax laws regarding the allocation of personal and business interest expenses for farm families.

Insure What You Can't Afford to Lose

With or without a lender requiring it, you should consider carrying a farmowner's policy to cover the potential loss of the farm to fire, flood, earthquake and other disasters. Liability policies cover you if someone should fall on your place or be injured by food you grew.

Vehicle policies are required in the State of California

Health insurance is a necessary protection against enormous medical bills.

Life insurance can cushion your family against financial disaster in the event of your death.

AGRICULTURAL BUSINESS PLAN

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QUIZ: CASH MANAGEMENT AND BUDGETING

¹ George F. Patrick, Extension Economist, Purdue University, Decision-Making in a Risky Environment

- Q 1.** Which of the following types of accounts used in cash management are available from financial institutions?
- A.** Demand Deposits **B.** Time Deposits
C. Money Market Accounts **D.** NOW Accounts **E.** All of the Above
- Q 2.** Which of the following is NOT a factor in determining how much you earn on your investment funds?
- A.** Whether the banking institution is a federal or a state-chartered bank
B. The initial investment and any subsequent deposits
C. The amount of time the money is left on deposit
D. The rate of interest being paid
E. The method of interest calculation
- Q 3.** The amount to which today's investment will grow over a given period of time at a specific rate of interest is known as:
- A.** Current Value
B. Future Value
C. Compound Value
D. Simple Value
- Q 4.** The first step in budgeting is to:
- A.** Decide how much each month you can devote to savings.
B. Project your income and expenses for the next year.
C. Record historical information concerning your income and expenses.
D. Target any areas in your spending which need to be changed.
- Q 5.** The statement which shows your financial condition as of a certain date is called a:
- A.** Cash Flow Statement
B. Budget Statement
C. Credit application
D. Financial Statement
E. Liquidity Statement

- Q 6.** A total of monthly debt repayment should not exceed what percentage of monthly take-home pay?
- A.** 10% **B.** 20% **C.** 33%
D. 40% **E.** 50%
- Q 7.** The method of calculating finance charge on credit accounts which is most expensive for the consumer is the:
- A.** Average Daily Balance Method **B.** Previous Balance Method
C. Adjusted Balance Method **D.** Past Due Balance Method
- Q 8.** The guideline that mortgage lenders use in determining what house payment you will generally qualify for is that your monthly house payment including principal, interest, taxes, and insurance should not exceed _____ of your gross monthly income, and this house payment plus payments for all other debts should not exceed _____ of your gross monthly income:
- A.** 50% and 100% **B.** 33% and 50%
C. 28% and 38% **D.** 15% and 25%
- Q 9.** The type mortgage in which the interest rate changes during the life of the loan is called a:
- A.** Fixed Rate Loan **B.** Balloon Mortgage
C. Adjustable Rate Mortgage **D.** Growing Equity Mortgage **E.** Reverse Mortgage
- Q 10.** The following should be considered when determining whether or not to refinance an existing home mortgage:
- A.** The closing costs on the new loan
B. The anticipated length of ownership of the home
C. The difference in payments between the old a new payment
D. Whether or not the existing loan has a prepayment penalty
E. All of the above
- Q 11.** All of the following are true statements concerning an auto lease EXCEPT:
- A.** A lease never requires a down payment.
B. Mileage during the lease is limited to a specific amount.
C. Additional fees may apply if you terminate the lease early
D. The leasing company retains ownership of the vehicle

ANSWERS

1. **E**; 2. **A**; 3. **B**; 4. **C**; 5 **D**; 6. **A**; 7. **B**; 8. **B**; 9. **C**; 10. **E**; 11. **A**

Score = 0% - 50%: Back to the books

Score = 51% - 70%: Maybe a refresher on a few items.

Score = 71% - 85%: Pretty Good

Score = 86% or better: You are doing well!!!

FAMILY CASHFLOW BUDGET						
	Jan	Feb	Mar	Apr	May	Jun
INCOME						
Wages (takehome) - partner 1						
Wages (takehome) - partner 2						
Interest and dividends						
Miscellaneous						
TOTAL INCOME						
EXPENSES						
FIXED						
SAVINGS						
Mortgage payment						
Credit card payments						
Other debt payments						
Life insurance						
Health insurance						
VARIABLE						
Rent						
Utilities						
Electricity						
Gas company						
Water						
Telephone bill						
Home repairs						
Medical and dental						
Groceries and outside meals						
Groceries						
Non-foods						
Outside meals						
Auto expense						
Auto payment						
Auto insurance						
Auto Fuel						
Auto Repair/Maintenance						
Auto Registration						
Clothing						
Laundry and drycleaning						
School expenses						
Child care						
Beauty shop and barber						
Other						
DISCRETIONARY						
Charity						
Dues and subscriptions						
Gifts						
Entertainment and recreation						
Vacations						
Cable TV						
Miscellaneous						
Other						
Other						
Other						
Other						
TOTAL EXPENSES						
CASH (SHORT) EXTRA						

CRITICAL CASHFLOW MANAGEMENT - THINKING CLEARLY AND MAKING HARD CHOICES.

by Poppy Davis, CPA

Ullrich Delevati, CPAs, Woodland, CA

Cash shortages may pass, but the decisions you make may have long term consequences. What causes a business to go from cash short to insolvent? What legal obligations are incurred by purchasing on account, or borrowing against assets? When does business debt become personal? What would a strategic emergency downsizing plan entail? What is forced liquidation?

STAYING OUT OF TROUBLE IN THE FIRST PLACE

- a) **Recognize that farming involves boom and bust cash flow, and plan accordingly. Plan to have sufficient cash or credit available to stay current with all of your obligations when your cash receipts are low.**

You need to have a good idea of when your bad times will fall, how short you will be, and when you reasonably expect to receive income. Consider the following three ideas to predict and maintain your cash flow.

1. Monthly cash flow budgeting

Develop a spreadsheet and update it twice a month. Here is an example:

	Oct	Nov	Dec	Jan
Beginning Cash -	10,000	16,942	8,084	626
Est. Received on	22,500			
Est. Farmers	2,400	2,400	1,000	1,500
Est. Gift Box		200	500	
Est. CSA Shares				10,000
Estimated	34,900	19,542	9,584	12,126
Actual Rent			6,000	
Actual Payroll	1,600	1,600	1,600	800
Actual Payroll	208	208	208	104
Est. Vendor	9,500	7,000	4,000	3,000
Actual Loan	650	650	650	650
Estimated	11,958	9,458	12,458	4,554
Available less	22,942	10,084	(2,874)	7,572
Draw	6,000	2,000		2,000
Additional Cash				
Owner			1,000	
Credit			2,500	(2,500)
Ending Cash	16,942	8,084	626	3,072

2. Savings

Once you can anticipate cash shortfalls, you can try to save enough to cover short months. If you are a sole proprietorship or a partnership, you can save the money by leaving it in the business or by drawing it out of the business and contributing it back when it is needed. If your business is incorporated, you should already be familiar with the specific protocols of drawing money from the business and contributing money to the business.

3. Operating Loans

The modern convention is for farmers to obtain outside financing for the coming crop year and pay the financing off with crop proceeds. The CSA structure is a great alternative to outside financing because you receive money upfront and you do not have to pay it back later.

You may still wish to obtain an operating line of credit from a bank so that you can cover unexpected cash short falls. You need good credit in order to obtain a line of credit, and you will be expected to pay the line of credit down to zero at least once during the year.

Traditional crop loans – May have substantially better terms than other forms of self financing such as using personal credit cards or taking a mortgage on your residence. If you work with a traditional ag lender you will need to develop realistic operating budgets and operate inside of your budget. If you keep your debt to a manageable level, you may find that your banker becomes a valuable business advisor. If you take on too much debt and

operate outside of your budget you may send your business into a downward spiral and you may not be able to recover.

B) HARD CHOICES: COMMUNICATE AND PRIORITIZE

Communicate!

If you pretend to ignore your creditors, your account will eventually be sold to a collections agency. Most creditors would rather work out a payment plan than turn you over to collections, but they have to trust that you will stay in touch with them. If a creditor turns your account over to a collection agency, they can only expect to receive a small fraction of whatever you ultimately pay.

Even if your account is turned over to a collections agency, you will work with someone who will be much more understanding of your situation if you answer the phone, return calls, and make small regular payments.

Prioritize business debts and personal debts and expenses

If you took less cash (or no cash) out of your business, would you be able to meet your business obligations? Consider financing personal debts and expenses outside of your business. Consider a second mortgage, personal credit card debt, a family loan, a second job.

Which will hurt more; damaging personal credit or damage to your business credit/reputation? Consider the effect of your bad credit on your spouse's credit and on your children's ability to apply for financial aid. Weigh this against your future ability to work with the vendors that support your business. Again, communication is key. If you stay in touch and make small regular payments through your bad times you may find that

many of your vendors will be supportive and willing to work with you in the future.

Prioritize late payments by severity of consequences

Always pay payroll taxes as they come due and avoid a 15% civil penalty as well as regular penalties and interest.

Maintain worker's compensation coverage.

Sort other payables by:

1. Interest rate – pay highest interest rate obligations first
2. Original due date – pay oldest obligations first
3. Critical suppliers – pay those people with whom you must maintain good relations first.
4. Secured debt
 - Liens on business property and equipment
 - Liens on land
 - Business debts secured by personal assets

GETTING YOUR HEAD ABOVE WATER: GATHER INFORMATION AND SEEK OBJECTIVE GUIDANCE.

Take Stock.

If you are in deep trouble, it is very likely that you have been operating with limited or inaccurate financial information. You may have invested considerable time and energy in an accounting system, but still have no idea where you really stand. You can not delegate the basic responsibility of understanding your business finances. Beware the financial advisor who lets you think that they will lift this responsibility from your shoulders.

Any business owner should be able to do the following (**no financial or accounting background needed**):

- 1) Take three pieces of paper or an excel spread sheet and divide each into three columns.
- 2) Divide the first sheet in half. In the top half, list everything you own that could be

sold for cash, but which you do not want to sell. Include your house, your car and any retirement savings you may have. On the bottom half list everything that can be converted to cash within the next six months: cash and stocks, amounts owed to you by others, crops that are growing, equipment and land that you are willing and able to sell, etc. Identify each item in the left column, record what you think it is worth in the second column, and note any debt you have against the item in the right column.

- 3) On the second piece of paper list every one you owe in the left column, the amount you owe in the middle column, and the approximate due date and interest rate in the third column. If you can sort this list in order of the size of debt or the age of the debt that is helpful but it is not necessary.
- 4) On the third sheet of paper list your immediate goals and priorities in the left hand column, your six month to one year goals and priorities in the middle column, and your two to five year goals and priorities in the third column.

Seek Objective Guidance

Get a team together. Your family is included by definition. A family friend who knows and loves you and who is a clear thinker can be invaluable. It does not matter if they do not have financial experience; their role is to make sure that you are making coherent decisions that reflect your values. If you can not explain your decisions to your friend in a way that they understand, you may not really understand what you are doing yourself.

Have a meeting.

Review your three pieces of paper.

Try to boil your situation down to a few critical problems such as:

- 1) Make \$15,000 loan payment due in 20 days.

- 2) Need at least \$20,000 to finish the year, need cash in about 40 days to pay out over about three months.
- 3) Keep afloat until crop payment comes in – 160 days.

Meet again to start figuring out how to prevent this from happening again.

Propose a few plans for solving each of your problems. Remember, if your choices come down to defaulting or renegotiating, your creditor may well prefer negotiation. Develop a list of negotiable items and prioritize. You would be amazed at who is out there willing to consider giving you money under the right conditions. Do not assume that you can not get new financing or that you can not refinance existing obligations.

Stalling is a legitimate tactic, but to be successful you need to be proactive with your communication and you need to **actually** be trying to solve the problem, even if you are trying some farfetched things. (“We applied for a second mortgage and the banker said she was sure we would get it but now she is on vacation. We expect to hear back in three weeks, I will call you as soon as I know.”)

It is always important not to lie, but it is even more important when you are trying to negotiate with creditors. A creditor may sue you for fraud.

Identify what would need to happen in order to execute any of your plans.

Identify the things you do not know or understand and draw up a specific list of questions that will need further research.

Get your questions answered and start trying to implement your plans.

Now may be the time to seek professional council. If you are unsure about anything at this point, it is time to seek professional council. Even if you are sure of everything at this point, if you can possibly afford it you should seek out an attorney with experience in business law. Be careful not to throw your money away on

someone who does not have experience helping troubled businesses out of debt.

DOWN THE GARDEN PATH; HOW GOOD BUSINESSES GO BAD

Good business management comes down to savvy and constant cost benefit analysis. A business owner must weigh the costs and options for minimizing various risk factors against the probable cost of loss. Here are a few examples of common poor risk management decisions.

a) Lack of succession planning

How do businesses survive the sickness, divorce and/or death of owners? These things are fairly probable.

b) Failure to reinvest in business and grow business capital

Taking excessive profits out of the business for personal spending and failing to grow the business assets along with the business' increasing earnings capacity. This will always lead to an undercapitalized business which will either go into debt, sell assets, or require the owner to contribute cash back into the business.

c) Improper leveraging, financing short term assets with long term debt and vice versa.

A common example is purchasing a piece of equipment with operating cash and then taking out an equipment loan to finance operations. This will lead to cash flow problems and distorted results of operations because costs will not be properly matched to revenues in the correct period. This will also look bad when you apply for financing.

d) Not understanding tax liabilities and due dates.

Failing to understand self – employment tax, effect of loss carry forwards, limitations on certain deductions in loss situations. The cost of ignorance in this realm is high, and it will be very difficult to avoid paying the price.

e) Purchasing assets or expanding operations for the wrong reasons.

Buying equipment because it is a good deal or because of special tax depreciation considerations.

Expanding into permanent crops because you like to grow them.

This is gambling, not managing.

f) Failing to consult with business advisors and / or failing to listen to business advisors.

Not requesting objective feasibility studies before taking on major new financial commitments.

Not letting go of a pet idea after it has been shown to be unfeasible.

This is high stakes gambling.

INSURANCE

While there is a lot more to family and personal risk management than buying insurance, insurance is a necessary component to a risk management plan. Knowing how various insurance vehicles work can help you get more value from your insurance dollar.

What do I need to insure?

The old saw is “insure what you can’t afford to lose.” While insurance doesn’t really give you back exactly what you lost in the case of a fire or the death of a loved one, it can lessen the financial burden on the family should these things happen.

Your mortgage lender or bank for your operating loan may require life insurance.

Without health, we are unable to fulfill either our family or business obligations. Enough health insurance that we don’t need to weigh going to the doctor against buying food for our family is absolutely necessary.

All farm families certainly need some form of life insurance on the key decision-makers. In family situations that is usually Mom and Dad. If a grown child and their spouse are part of the management team, they should have insurance, too. How would you replace the labor and management one of these people provides if illness, injury or death were to take them away from the business.

A short list for managing the risk to your family of catastrophic loss would include:

- Your life
- Property/Farmowners insurance
- At least catastrophic health insurance coverage, better yet a good group plan.
- Vehicle insurance including uninsured and uninsured medical
- Business liability insurance for any nonproduction businesses or an umbrella policy

How much coverage do I need?

The answer lies between what you need insurance to do and what your finances will cover.

Here are some things to consider:

A. Property/Farmowners insurance

If you have a mortgage or a loan secured by your farm/ranch, your lender may have a say in the minimum amount you carry. NOTE: This is to protect them not you. It will cover the property used for collateral but probably not your personal property. You should know whether the insurance guarantees replacement of buildings or only pays the average building cost per square foot. Does it cover upgrading to today’s code standards?

B. Health Insurance

If all you can afford is catastrophic coverage, at least do that. Three or four days in the hospital alone can easily go over \$100,000 - operating room time even more. Neither of those covers doctors charges. The most common reason why at least one family member works off-farm is to cover benefits like health insurance.

C. Vehicle Insurance

You can’t drive without it in California. How much above the minimum amounts you go depends on what you have to lose if you get sued.

D. Umbrella Policies

For very little additional monies, umbrella policies can double your liability coverage. These are most easily acquired if you have your vehicle and farm under the same policy.

E. Business Liability

Most farmowners policies cover only production agriculture, your home and outbuildings. IF you have an additional nonproduction business like going to a farmers market or an agritourism business, you will want to ask your agent about a rider for that business.

An interesting calculator can be found at <http://www.insweb.com/tools/default.htm>

Note: this is an insurance site so take the answers in that light. They do a good job of explaining their thinking, however.

QUIZ: INSURANCE AND RISK MANAGEMENT

- Q 1.** The Risk Management technique which involves the lowering of the probability of a particular hazard occurring is called:
- A.** Risk Avoidance
 - B.** Risk Reduction
 - C.** Risk Assumption
 - D.** Risk Transfer
- Q 2.** The first step in determining how much life insurance you may need is:
- A.** Considering the income of other family members
 - B.** Determining what survivor benefits may be available from Social Security or employer-sponsored plans
 - C.** Establishing the dollar value of the need
 - D.** Deciding how much coverage you can afford.
- Q 3.** Which of these characteristics is NOT true of term insurance?
- A.** No cash value build up
 - B.** Premiums are less expensive than with other plans.
 - C.** Term insurance is purchased for a certain period of time.
 - D.** At the end of the “term” the coverage may be continued for the same premium.
- Q 4.** All of the following are examples of cash value life insurance EXCEPT:
- A.** Level Term Life
 - B.** Variable Life
 - C.** Universal Life
 - D.** Whole Life
- Q 5.** The following factor(s) should be considered when choosing an insurance company:
- A.** Financial strength of company
 - B.** Availability of local professional service personnel
 - C.** Cost
 - D.** Comparative policy benefits
 - E.** All of the above
- Q 6.** Which of the following is a TRUE statement concerning the taxation of life insurance policies?
- A.** Policy loans are taxed as capital gains.
 - B.** Death benefit is received income-tax free
 - C.** All cash withdrawn from the policy will be subject to income tax.
 - D.** Dividends are taxable as ordinary income.

- Q 7.** The type of medical insurance plan which features co-pays at the time of service and a limited number of providers, with one physician serving as the “gatekeeper” who directs all non-emergency care is known as:
- A.** Preferred Provider Organization
 - B.** Indemnity Plan
 - C.** Comprehensive Medical Plan
 - D.** Health Maintenance Organization
 - E.** Fee For Service Plan
- Q 8.** Most long term care expenses are paid by:
- A.** Medicaid after the “spend-down” of personal financial resources
 - B.** Medicare Part A
 - C.** Medicare Part B
 - D.** Medicare Supplemental Policies
 - E.** Health Maintenance Organizations
- Q 9.** All of the following factors affect the cost of a disability income policy EXCEPT:
- A.** Age
 - B.** Occupation
 - C.** Duration of Benefits
 - D.** How many years in current occupation
 - E.** Length of elimination period
- Q 10.** Section II E of your Homeowners Policy provides coverage for:
- A.** The dwelling
 - B.** Other Structures
 - C.** Liability Loss
 - D.** Loss of Personal Property
 - E.** Loss of Use of Property

ANSWERS

1. **B**; 2. **C**; 3. **D**; 4. **A**; 5. **E**; 6. **B**; 7. **D**; 8. **A**; 9. **D**; 10. **C**

Score = 0% - 50%: Back to the books

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Score = 71% - 85%: Pretty Good

Score = 86% or better: You are doing well!!!

5 STEPS TO FARM TRANSFER & ESTATE PLANNING

By Scott Stothers, P.Ag., Farm Management Specialist, Manitoba Agriculture and Food

The most common question asked of professionals when it comes to developing a farm transfer plan or any type of estate planning is "How do I start?" Well, the truth is that most people asking this question have already started. They are just not sure where they are in the overall planning process or where they should be.

As a farmer or farm couple, some basic decisions and ideas as to who will take over the farm usually have been made. But the number of details required in implementing these ideas and what needs to be considered can increase quickly. Especially so, if the farm operation is large and/or there are other family members and needs to consider.

Farm transfer and estate-planning information basically breaks this process into five steps. These are

1. Collecting the Information,
2. Generating Options,
3. Making Preliminary Decisions,
4. Deciding on the Plan, and
5. Implementing the Plan

The first step of collecting information can be overwhelming and is usually the main reason why good intentions in developing plans go astray. This can get quite involved, but the information gathered can be broken down into two manageable key components. These are the technical issues of the potential plan and the human considerations that have to be taken into account.

On the technical side this could involve analysis of the present farm operation to determine overall profitability and cash flows. This work is usually

done to evaluate for retirement needs and/or deciding on a potential division of the farm assets. A general understanding of tax implications such as capital gains, the use of rollover provisions and other options should be collected as well. Detailed tax calculations are not required at this point, just the tax awareness to develop the options that will be examined in more detail later. In a similar vein, familiarity of some of the legal tools and avenues also needs to be developed so that a potential legal checklist can be drawn up. Examples of this might be adjustments to the current will and/or in combination with a farm business agreement, lease contracts, etc.

Looking at the human considerations of an estate plan, one has to consider one's goals as well as the potential goals of other members in the farm transfer process. The beliefs and expectations of the individual(s) have to be discussed and resolved through effective communication. This might also involve developing potential plans for the transfer of management decision making and authority.

Another consideration you will face is the kind of retirement lifestyle you expect to have. The financial information gathered would provide ideas and insight as to how this goal could be met.

Combining the human and technical information is a crucial part of the process. The questions asked and answers received should provide a strong base to develop your plan. One main reason farm estate plans can fail is that questions are not asked during this process.

Assumptions are usually made on behalf of the individuals involved which may be contrary to their wishes. The end result is a plan that works for no one in passing the family farm on.

Step Two is to generate from your information, as many creative options you can. This is done keeping in mind your goals and those of other family members who have an interest. Each option will have pros and cons as to how it meets people's expectations and the financial benefits or drawbacks.

Step Three is to take the options generated and decide on which best address the overall needs you have identified. This requires an overall evaluation to narrow down and select plans that offer an increased chance of success in finalizing a farm transfer plan.

Step Four is to develop a preliminary draft of the two to three options you may have chosen. This draft should also include the reasons for selecting the options that you have chosen. Once this is complete, the services of professionals, such as lawyers, accountants, etc. can be used for their detailed review. They will provide an overall opinion as to the plan's effectiveness and they can also provide a summary of the potential costs for each. Financial planners should also be employed to discuss possible portfolios that can address your retirement income goal.

As one of the plans materializes as the best to go with, this should be discussed with all participants to confirm their original input. Further details on how the plan will unfold in the future and a time schedule can then be developed. The final written document of your plan should then contain the following:

- * A retirement plan
- * A plan for transfer of management
- * A plan for transfer of ownership, which includes an up-to-date will, as well as business agreement.
- * A contingency plan (in case of death, divorce, etc.)
- * And most importantly, a timetable for implementation.

The last and fifth step is to make sure the timetable is followed. Review and follow-up is the final factor in successful estate planning. This can be difficult at times, as the reality of change occurs as the plan is implemented.

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QUIZ: ESTATE PLANNING

- Q 1.** Estate planning involves:
- A.** Minimizing estate and transfer taxes
 - B.** Determining who will be heirs or beneficiaries of all estate assets
 - C.** Transferring maximum possible percentage of estate to heirs
 - D.** Providing financial security to dependents after your death
 - E.** All of the above
- Q 2.** Any property transferred at death by your will makes up your:
- A.** Probate estate **B.** Gross estate
 - C.** Non-probate estate **D.** Taxable estate **E.** Net estate
- Q 3.** An asset which would pass outside your provisions of the will would be:
- A.** A bank account held just in your name
 - B.** The life insurance proceeds on a policy in which you have made your “estate” the beneficiary
 - C.** Real estate held as a Tenant in Common
 - D.** Assets in your pension plan of which your spouse is the beneficiary
- Q 4.** The type of property ownership which applies only to husbands and wives jointly owning property and provides for automatic rights of survivorship is called:
- A.** Tenants in Common **B.** Tenants by the Entirety
 - C.** Community property **D.** Joint Tenants With Rights of Survivorship
- Q 5.** The clause of a will that disposes of specific property is the:
- A.** Disposal Provision **B.** Direction of Payments Provision
 - C.** Appointment Clause **D.** Execution Clause
- Q 6.** A(n) _____ makes a change to an existing will:
- A.** Last letter **B.** Amendment
 - C.** Codicil **D.** Right of Election
- Q 7.** The party to a trust who creates the trust is called the:
- A.** Beneficiary **B.** The Trustee
 - C.** The Executor **D.** The Grantor
- Q 8.** A trust which is created during the grantor’s lifetime and may be amended is called :
- A.** A revocable living trust **B.** An irrevocable living trust
 - C.** An irrevocable testamentary trust **D.** A revocable testamentary trust

- Q 9.** A disadvantage of a Revocable Living Trust is:
- A.** There is management continuity in the event of incapacity.
 - B.** There will be legal fees involved.
 - C.** Trust property is subject to probate.
 - D.** The Grantor must continue to make investment and management decisions.
- Q 10.** Federal Laws exempt certain gifts made during your lifetime from gift tax. These exemptions would include all of the following EXCEPT:
- A.** Charitable contributions
 - B.** An annual gift of \$50,000 per year to each of your children
 - C.** A gift of \$1,000,000 to your spouse
 - D.** A gift of \$20,000 given jointly with your wife to your son
- Q 11.** A cost associated with the settlement of an estate would be:
- A.** Probate fees
 - B.** Attorneys fees
 - C.** Federal Estate Tax
 - D.** Income tax
 - E.** Unpaid bills
 - F.** All of the above

ANSWERS

1. **D**; 2. **A**; 3. **D**; 4. **B**; 5. **A**; 6. **C**; 7. **D**; 8. **A**; 9. **B**; 10. **B** 11. **F**

Score = 0% - 50%: Back to the books

Score = 51% - 70%: Maybe a refresher on a few items.

Score = 71% - 85%: Pretty Good

Score = 86% or better: You are doing well!!!

RISK ASSESSMENT AND STRATEGY WORKSHEET

Risk Category	Specific Risk within Category	Tolerance for this Risk	
Strategies Available to Manage Risk based on Tolerance	Tool(s)	Resource Contact	Annual Cost
Avoid			
Shift/Transfer			
Reduce			
Retain/Assume			

RESOURCES

Resources for Writing Your Business Plan

1. Small Business Administration Online Small Business Start-up Kit www.sba.gov/starting/indexstartup.html Hard copy is available through the regional offices or local SBDCs
2. An online Business Plan Tutorial – in English and Spanish www.sba.gov/starting/indexbusplans.html
3. The Business Owner’s Tool Kit at www.toolkit.cch.com/ From their website: “The CCH Business Owner’s Toolkit™ is brought to you by CCH INCORPORATED, a leading provider of business, legal, and tax information and software to the business community in the U.S. and abroad since 1913. More than four generations of business and tax advisors have trusted our products for their accuracy, reliability, comprehensiveness, and timeliness. “
“And now CCH has custom-designed the CCH Business Owner’s Toolkit™ to bring you, the small business owner, the most accurate and up-to-date information available — all in one place — to help you quickly answer questions, make decisions, and get the most from your business.”
4. Also see The Virtual Business Plan at <http://www.bizplanit.com/vplan.htm> This site is by the developers of Business PlanPro software, but offers some good quick advise.
5. A web-based interactive business planner from Canada is located at www.cbpc.org/ibp/doc/intro_ibp.cfm This site stores your business plan and lets you update it.
6. Another Canadian source for growers is Farm Business Management Information Network for British Columbia - FBMinet-BC with integrated financial statements and enterprise budgets - www.fbminet.ca/bc/mgt_planning/busplan.htm
7. If you have loaded the full version of Microsoft Office™ from v 98 forward, there is an interactive business plan writer that incorporates your financial statements available in the “Templates” menu.

U.S. Small Business Administration

Great web resources and personal help to small business owners. Direct and guarantee loan programs. The SBA co-sponsors the Small Business Development Centers that exist in conjunction with Community Colleges and Economic Development agencies in California. A list of those serving rural California is included here.

SBA Regional Offices

Sacramento District Office

Jim O’Neal, District Director

660 J Street, suite 215

Sacramento, CA 95814

(916) 498-6410 Phone

(916) 498-6422 Fax

e-mail sac-needhelp@sba.gov

Serves Amador, Butte, Calaveras, Colusa, El Dorado, Glenn, Lassen, Modoc, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Sutter, Tehama, Trinity, Yolo, Yuba

San Francisco District Office

Mark Quinn, District Manager

455 Market Street

6th Floor

San Francisco, California 94105-2445

Tel: (415) 744-6820

Fax: (475) 744-6812

Website: www.sbaonline.sba.gov

Serves Alameda, Contra Costa, Del Norte, Humboldt, Lake, Marin, Mendocino, Napa, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano, and Sonoma.

Fresno District Office

Antonio Valdez, District Director
 2719 N. Air Fresno Drive, Suite 200
 Fresno, CA 93727
 (559) 487-5791, ext 142
 Serves Alpine, Fresno, Inyo, Kern, Kings, Madera,
 Mariposa, Merced, Mono, Monterey, San Benito,
 San Luis Obispo, Stanislaus, Tulare and Tuolumne

Los Angeles District Office

Alberto G. Alvarado, District Director
 330 North Brand, Suite 1200
 Glendale, California 91203
 (818) 552-3210
 Serves Los Angeles, Santa Barbara, Ventura

Santa Ana District Office

Sandy Sutton, District Director
 200 W. Santa Ana Blvd., Suite
 Santa Ana, Ca 92701
 (714) 550-7420
 Serves Orange, Riverside and San Bernardino
 counties

San Diego District Office

George Chandler, District Director
 550 West "C" Street - Suite 550
 San Diego, CA 92101-3500
 (619) 557-7250
 Fax (619) 557-5894
 Serves Imperial, San Diego

SBDCS SERVING RURAL CALIFORNIA

The California Small Business Development Center (SBDC) Program was formally established in 1988 in the Office of Small Business under the California Technology, Trade and Commerce Agency (CTTCA) to spur the expansion and development of California small businesses. Jointly funded by CTTCA, the U.S. Small Business Administration, and the Chancellors Office of California Community Colleges Small Business Development Centers provide comprehensive services to help promote the start-up, retention and expansion of small businesses. They provide free one-on-one counseling as well as low-cost courses. Recently, California's SBDCs have begun a program for Agriculture Entrepreneurs.

Butte College Small Business Development Center

Sophie Konuwa, Director
 19 Williamsburg Lane
 Chico, CA 95926
 530-895-9017
 530-895-9099
 konuwaso@butte.cc.ca.us
<http://www.bcsbdc.org/>
 Butte, Tehama, Glenn

Cascade Small Business Development Center

Nancy Heubeck, Director
 737 Auditorium Drive, Suite A
 Redding, CA 96001
 530-225-2770
 530-225-2769
 nheubeck@scedd
www.shastanet.org/sbdc
 Shasta, Siskiyou, Trinity

Central California Small Business Development Center

Dennis Winans, Director
 3419 West Shaw Avenue, Suite 102
 Fresno, CA 93711
 800-974-0664 or
 559-275-1223
 559-275-1499
 dennisw@ccsbdc.org
www.ccsbdc.org
 Fresno, Madera, Kings, Tulare

Visalia Small Business Development Center

Interm, Manager
 720 Mineral King Avenue
 Visalia, CA 93291
 559-625-3051
 559-625-3053
 wendi@ccsbdc.org
 Kings, Tulare

Central Coast Small Business Development Center

Teresa Thomae, Director
 6500 Soquel Drive
 Aptos, CA 95003
 831-479-6136

831-479-6166
 TEThomae@cabrillo.cc.ca.us
 www.businessonline.org
 Santa Cruz ,Monterey

Contra Costa Small Business Development Center

Beverly Hamile, Director
 2425 Bisson Lane, Suite 200
 Concord, CA 94520
 925-646-5377
 925-646-5299
 bhamile@hotmail.com
 Contra Costa

Fremont Small Business Development Center

Faheem Hameed, Director
 3100 Mowry Avenue, Suite 404
 Fremont, CA 94538
 510-505-9725
 510-505-9727
 sbdc@peralta.cc.ca.us
 Alameda

Gavilan College Small Business Development Center

Richard Gillis, Director
 7436 Monterey Street
 Gilroy, CA 95020
 408-847-0373
 408-847-0393
 rgillis@dslsdesigns.net
 www.gavilansbdc.org
 San Benito ,Santa Clara ,Monterey**Greater**

Sacramento Small Business Development Center

Jacqueline Bell, Director

 1410 Ethan Way
 Sacramento, CA 95825
 916-563-3210
 916-563-3266
 bellj@do.losrios.cc.ca.us
 www.SBDC.net
 El Dorado ,Sacramento ,Yolo

Solano County Small Business Development Center

Philip Armand, Interim Director
 424 Executive Court North, Suite C
 Suisun, CA94585
 707-864-3382
 707-864-8025
 parmand@solano.cc.ca.us
 www.solanosbdc.com
 Solano

South Central Coast Small Business Development Center

David Ryal, Director
 PO Box 8106
 San Luis Obispo, CA93403
 805-549-0401
 805-541-5749
 sccsbdc@fix.net
 www.cuesta.cc.ca.us/cominty/sbdc.htm
 San Luis Obispo , Santa Barbara

Southwestern College Small Business Development & International Trade Center

Mary Wylie, Director
 900 Otay Lakes Road, Building 1600
 Chula Vista, CA91910
 619-482-6319
 619-482-6402
 mwylie@swc.cc.ca.us
 www.sbdctc.org
 San Diego, Imperial

Valley Sierra Small Business Development Center

Interm director
 1012 "T" Street, Ssecond floor
 Modesto, CA95354
 209-521-6177
 209-521-9373
 bearden@scedco.org
 http://smallbizcenter.org
 Mariposa ,Merced ,Stanislaus ,Tuolumne

Inland Empire Small Business Development Center

Michael Stull, Director
 1157 Spruce Street
 Riverside, CA 92507
 800-750-2353 or
 909-781-2345
 909-781-2353
 mstull@iesbdc
 www.iesbdc.org
 San Bernardino, Riverside

Napa Valley College Small Business Development Center

Sue Jensen, Interim Director
 1556 First Street, Suite 103
 Napa, CA94559
 707-253-3210
 707-253-3068
 sjensen@napasbdc.org?
 www.napasbdc.org?
 Napa

North Coast Small Business Development Center

Judith St. Claire, Director
 E Street
 Eureka, CA95501
 707-445-9720
 707-445-9652
 stclaire@northcoast.com
 Humboldt, Del Norte

Gold Coast Small Business Development Center

Jose Vega, Manager
 5700 Ralston Street, Suite 310
 Ventura, CA93003
 805-658-2688
 805-658-2252
 gcsbdc@aol.com
 www.vecd.org/sbdc
 Ventura

North San Diego Small Business Development Center

Carole Enmark, Director
 1825 Mission Avenue
 Oceanside, CA92056
 760-754-6575
 760-754-0664
 cenmark@mcc.miracosta.cc.ca.us
 www.mccbbusiness.com/sbdc
 San Diego, Imperial

Orange County Small Business Development Center

Michael Roessler, Director
 901 East Santa Ana Boulevard, Suite 101
 Santa Ana, CA92701
 714-564-5200
 714-647-1168
 roessler_michael@rscdd.org
 www.rancho.cc.ca.us/home/sacbisc/html/
 ocsbdc.html
 Orange

Redwood Empire Small Business Development Center

Lorraine DuVernay, Director
 606 Healdsburg Avenue
 Santa Rosa, CA95401
 707-524-1770
 707-524-1772
 lduvernay@santarosa.edu
 www.santarosa.edu/sbdc
 Mendocino , Marin , Sonoma

San Joaquin Delta College Small Business Development Center

GillianMurphy, Director
 445 North San Joaquin Street
 Stockton, CA95202
 209-943-5089
 209-943-8325
 gmurphy@sjdccc.cc.ca.us
 www.inreach.com/sbdc
 Alpine, Amador ,Calaveras ,San Joaquin

Sierra College Small Business Development Center

Mary Wollesen, Director
 560 Wall Street, Suite J
 Auburn, CA95603
 530-885-5488
 530-823-2831
<http://sbdcsierra.org>
 Modoc, Nevada ,Placer ,Plumas ,Lassen, Sierra

Weill Institute Small Business Development Center

Jeffrey Johnson, Director
 1706 Chester Avenue, Suite 200
 Bakersfield, CA93301
 661-322-5881
 661-322-5663
weill@lightspeed.net
www.kccd.cc.ca.us/sbdc.html
 Inyo, Kern ,San Luis Obispo ,Mono

Yuba College Small Business Development Center

Vacant
 9th Street
 Marysville, CA 95901
 530-749-0153
 530-749-0155
 Colusa ,Lake ,Sutter ,Yuba

WHOLE FARM PLANNING TOOLS

Adapted from the Minnesota Project website
<http://www.misa.umn.edu/~mnproj/wfp/index.htm>

HOLISTIC MANAGEMENT

This tool has been used extensively by livestock producers interested in management-intensive grazing, as well as by entire communities wanting to improve civic management. HM asks practitioners to define the “whole” under management, including the physical resource (the farm), financial resources, and the people directly involved in the farm. With the whole in mind, those with a stake in the farm develop a three-part goal (quality of life, forms of production, future resource base) and assess the four ecosystem foundations of the farm system (water cycle, mineral cycle, energy flow, community dynamics). A number of management tools are then offered for management, and guidelines for testing and managing the farm are offered. HM promotes a plan monitor-manage-replan cycle in a way that captures the dynamic nature of farming. For more information, there are many websites devoted to HM projects — check out the Center for Holistic Management site.

The Allan Savory Center for Holistic Management
 1010 Tijeras NW
 Albuquerque, NM 87102
 Tel: (505) 842-5252
 Fax: (505) 843-7900
savorycenter@holisticmanagement.org
www.holisticmanagement.org

THE NATURAL STEP

This tool was developed in Sweden. Similar to HM, TNS offers a framework that is based on science and serves as a compass for businesses, communities, academia, government entities, and individuals working to redesign their activities to become more sustainable. There are four system conditions in TNS that guide planning and deci-

sion-making. The Systems Conditions are used as a shared mental model for problem solving, for the development of consensus documents, to structure institutional scientific work at Universities, in course curricula for teaching students, and by corporations, municipalities, and other organizations as an instrument for strategic planning.

The Natural Step US
The Presidio Thoreau Center for Sustainability
PO Box 29372
San Francisco, California 94129-0372
tel: 415-561-3344
fax: 415-561-3345
tns@naturalstep.org

NRCS' PROGRAM -

Soil, Water, Air, Plants, Animals, Humans — is a useful tool for planning for multiple concerns. NRCS technicians (or your local Soil and Water Conservation Department field staff) are available to help you plan for your farm needs. See Appendix A Resources for the USDA Service Center nearest you.

FAMILY MEETING FACILITATION

Family Lands Consulting

Olivia Boyce-Abel

1003 Smith Grade
Santa Cruz, CA 95060
Phone: 831-469-9223
Fax: 831-421-9223
E-mail: olivia@familylands.com
Web: <http://www.familylands.com>

Family Lands Consulting helps families reach decisions they choose in order to preserve their lands and their family's heritage and harmony. Our services create a positive, non-adversarial environment for individual families or large groups. While early planning is preferable, we can also help after disputes have arisen. FLC's purpose is to facilitate, to mediate, and to help parties achieve a workable consensus.

We seek creative ways to settle land issues and strengthen family ties.

We provide:

- “ Consultation with individual family members to help open dialogue
- “ Facilitation of group family meetings for land use and estate planning
- “ Mediation of family land issues
- “ Consultation with single landowner exploring land use issues
- “ Assistance in creative planning and problem resolution
- “ Access to a network of experienced advisors
- “ Workshops and lectures for larger group

Family Business Renewal

FBR System, Inc

P.O. Box 2347 / 107 Sunrise Terrace
Avila Beach, CA 93424-2347
Tel.: (805) 595-2089
Fax: (805) 595-2821
Email: info@fbrsystem.com
Web: www.fbrsystem.com

FINANCIAL PLANNING

“Fundamentals of Financial Planning” course
<http://learningforlife.fsu.edu/course/fp101/index.html>

Florida State University Center for Professional Development
(850) 644-1571 voice ^644-7571 fax
<http://learningforlife.fsu.edu>

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This site has been funded by grants from the [Foundation for Financial Planning](#), and the [National Endowment for Financial Education](#). Florida State University does not endorse these

organizations or the International Association of Financial Planners whose members are used for a reference for participants seeking professional assistance.

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“There are no warranties, expressed or implied, as to accuracy, completeness, or results obtained from any information posted on this or any ‘linked’ web-site.”

SUCCESSION

Publications

Estate Planning Basics

(Book & eBook) Nolo Press

A short take on the fundamentals of estate planning, including wills, trusts, estate taxes, and financial and healthcare directives.

- List price: \$18.95

- Direct from Nolo: \$13.27

<http://www.nolo.com/noloso/02060021/espn/index.html?e=b16b0000902052001>

8 Ways to Avoid Probate

(Book & eBook) Nolo Press

Eight simple money- and time-saving strategies to keep your family out of probate court.

- List price: \$16.95

- Direct from Nolo: \$11.87

<http://www.nolo.com/noloso/02060021/pro8/index.html?e=b16b0001002052001>

The Financial Power of Attorney Workbook

(Book & eBook) Nolo Press

Helps you give a trusted person the authority to handle your financial affairs if you cannot.

- List price: \$29.95

- Direct from Nolo: \$20.97

<http://www.nolo.com/noloso/02060021/finpoa/index.html?e=b16b0001102052001>

Estate Planning Checklist for Farm

Families...approaching the porcupine

By Derek J. Fryer CA Published by British Columbia Ministry of Fisheries and Food; Alberta of Agriculture, Food and Rural Development; Saskatchewan Department of Agriculture and Food

Great workbook for farm families albeit the tax section does not apply. It's a great start with nothing comparable yet in the US.

Web Resources

Ohio State University Cooperative Extension Bulletin

Transferring Your Farm To The Next Generation

<http://ohioline.ag.ohio-state.edu/b862/index.html>

Canadian Farm Business Management Council.

<http://www.farmsuccession.com/english/>

hosted by Schumacker Publishing

<http://www.estateplanning.com/>

LAND CONSERVATION

California Department of Conservaion

Division of Land Resource Protection

Erik Vink, Assistant Director

California Farmland Conservancy Program

801 K St, MS 13-71

Sacramento, CA 95814-3528

916-324-0850

916-327-3430 fax

e-mail cfcf@conserv.ca.gov

<http://www.consrv.ca.gov/dlrp/CFCF/index.htm>

provides matching grant funds to facilitate the acquisition of conservation easements

American Farmland Trust

California Regional Office
 Director John McCaull
 260 Russell Boulevard, Suite D
 Davis, CA 95616
 530-753-1073
 530-753-1120 (f)
 twitzel@farmland.org

California Rangeland Trust

1221 H Street
 Sacramento, CA 95814-1910
 916-444-2096
 Nita Vail, Director
 Purchases, holds, and administers conservation easements on rangelands

Publications

Linked to the Land
 a brochure on conservation easements
 Great Valley Center, Nov. 2000

Your Land is Your Legacy (Revised and Updated in 1999)

American Farmland Trust \$9.95 plus shipping and handling. 66 pages. (PYLYLG)
 Includes recent tax law changes

Have you ever wondered how to protect your land but at the same time assure your financial well-being for the future?

The revised edition of *Your Land is Your Legacy* answers all your questions. Written especially for farmers and ranchers to share with the advisors who serve them, this book guides readers through the maze of estate planning options and pitfalls. It includes examples and worksheets on basic estate planning strategies, conservation options and a variety of approaches to keeping land available for the next generation of farmers.

Saving the Farm: A Handbook for Conserving Agricultural Land.

American Farmland Trust 1990; 150 pages in 3-ring binder; \$20.

Saving the Farm offers comprehensive information on agricultural land conservation in California. It provides guidance on how to implement effective programs, such as agricultural zoning and general plan policies, and information on raising funds. Appendices contain model policies and programs from California, but the information in this book has applications nationwide. (PSVFARM)

Web Resources

USDA/Natural Resources Conservation Service
 Farmland Protection Program
<http://www.info.usda.gov/nrcs/fpcp/fpp.htm>

California Department of Conservation
 California Farmland Conservancy Program
<http://www.consrv.ca.gov/dlrp/CFCP/index.htm>

American Farmland Trust
<http://www.farmland.org/>

FINANCIAL PLANNING GLOSSARY

Adjustable Rate Mortgage (ARM)

A mortgage on which the rate of interest, and therefore the size of the monthly payment, is adjusted up and down in line with movements in interest rates.

Adjusted Gross Income (AGI)

The amount of income remaining after subtracting adjustments to income from gross income.

Adjustments to Gross Income

Allowable deductions from gross income that include certain employee and personal retirement, insurance, and support expenses.

Affinity Cards

A standard bank credit card issued in conjunction with some charitable, political, or other sponsoring non-profit organization; these cards are a source of revenue to the sponsoring group since they normally earn a small percentage of all retail transactions.

Annual Percentage Rate (APR)

The actual or true rate of interest paid over the life of a loan.

Annuity

An equal cash flow that occurs annually; or an investment product created by a life insurance company that provides a series of payments over time.

Annuity Certain

An annuity that provides a specified monthly income for a stated number of years, without consideration of any life contingency.

Asset Allocation

A plan for dividing a portfolio among different classes of securities in order to preserve capital but protecting the portfolio against negative market development.

Assets

Items that one owns.

Average Daily Balance Method (ADB)

A method of computing finance charges by applying interest charges to the average daily balance of the account over the billing period.

Back End Load

A commission charged for redeeming mutual fund shares

Balance Sheet

A key financial statement that summarizes a person's assets, liabilities, and net worth, measured at a specified point in time.

Bear Market

A condition of the market typically associated with investor pessimism and economic slowdown; characterized by generally falling securities prices.

Beneficiary

In life insurance, the person who receives the proceeds of the insurance policy upon the insured's death.

Blue Chip Stock

A stock that is known to provide a safe and stable return; generally issued by companies that are expected to provide an uninterrupted stream of dividends and have good long term growth prospects.

Bid Price

The price at which one can sell a security.

Budget

A detailed financial forecast used to monitor and control expenditures and purchases; it provides a mechanism for carrying out financial plan to achieve short-term financial goals.

Bull Market

A condition of the Market normally associated with investor optimism, economic recovery and expansion; characterized by generally rising securities prices.

Cash Deficit

An excess amount of expenditures over income resulting in insufficient funds that must be made up either by drawing down savings or investments,

reducing assets, or through borrowing. Results in decreased net worth.

Cash Surplus

An excess amount of income over expenditures that can be used for savings or investments and to acquire assets or reduce debts. Results in increased net worth.

Cash Value

The accumulated refundable value of an insurance policy that is based on insurance premiums paid and investment earnings; can be used as a source of loan collateral.

Certificate of Deposit (CD)

A type of savings instrument that is issued by certain financial institutions in exchange for a deposit; typically requires a minimum deposit and has a maturity ranging from seven days to as long as seven or more years.

Closed End Lease

The most popular form of automobile lease, often called a “walk away lease” because at the end of its term the lessee simply turns in the car, assuming the present mileage limit has not been exceeded and the car hasn’t been abused.

Collateral

An item of value that is used to secure the principal portion of a loan.

Collision Insurance

Automobile insurance that pays for collision damage to an insured automobile regardless of who was at fault.

Commercial Bank

A financial institution that offers checking and savings accounts and a full range of financial products and services, including several types of consumer loans it’s the only institution that can offer non-interest paying checking accounts (demand deposits).

Community Property

A form of joint ownership wherein all property acquired by the effort of either or both spouses during marriage while they are domiciled in a

community property state is automatically owned equally by both spouses.

Compounding

When interest earned each year is left in the account and becomes part of the principal on which interest is earned in subsequent years.

Comprehensive Personal Financial Plan

A set of detailed plans and recommendations for achieving specific financial goals, as compiled from a family profile; information on current income, expenses, and financial condition; tax returns; insurance coverages; retirement programs; and estate plans.

Consumption

The using up of goods or services in the satisfaction of wants.

Conventional Mortgage

A mortgage offered by a lender who assumes all the risk of loss; typically requires a down payment of at least 20 per cent of the value of the mortgaged property.

Convertibility

A provision in term policies that allows the insured to convert the policy to a whole life policy providing the same death benefit, without proof of insurability.

Corporate Bond

A bond issued by a corporation; categories include industrials, public utilities, railroad and transportation bonds and financial issues.

Coupon

That feature on a bond that defines the annual interest income that the issuer will pay the bondholder.

Credit Bureau

An organization that collects and stores credit information about individual borrowers and for a specified fee, supplies it to financial institutions that request it.

Debit Cards

Specially coded plastic cards used to withdraw cash or transfer funds from a customer’s bank

account to the recipient's account to pay for goods or services.

Debt Safety Ratios

The proportion of total monthly consumer credit obligations to monthly take-home pay.

Debt Service Ratio

Total monthly loan payments divided by monthly gross (before-tax) income; provides a measure of ability to pay monthly loan payments in a prompt and timely fashion.

Decreasing Term Policy

A term insurance policy in which the protection decreases over the policy's life.

Deductible

The initial amount not covered by an insurance policy and therefore the responsibility of the insured.

Deferred Annuity

An annuity in which benefit payments are deferred for a certain number of years; purchased with either a lump-sum payment or in installments.

Demand Deposit

An account held at a financial institution from which funds can be withdrawn (in check or cash) upon demand by the account holder; same as a checking account. **Defined Benefit Plan**

A pension plan in which the formula for computing benefits is stipulated in its provisions. Thus allowing the employee to determine prior to retirement how much his/her retirement income will be.

Defined Contribution Plan

A pension plan that specifies the amount of contributions that both employer and employee must make; it makes no promises concerning the size of benefits at retirement.

Depreciation

The loss in the value of an asset such as an automobile that occurs over its period of use; calculated as the difference between the price initially paid and the subsequent sales price.

Disability Income Insurance

Insurance that provides families with weekly or monthly payments to replace income when the insured is unable to work as a result of a covered illness injury or disease.

Discounting

The process of finding present value; the inverse of compounding to find future value.

Diversification

The process of choosing securities having dissimilar risk-return characteristics in order to create a portfolio that will provide an acceptable level of return and in acceptable exposure to risk.

Elimination Period (Waiting Period)

The period of time, after the insured meets the eligibility requirements of his/her policy, during which no benefits are paid.

Equity

The actual ownership interest in a specific asset or group of assets.

Estate Planning

A goal-oriented activity that uses tax-minimization techniques to provide the greatest possible financial security for an individual and his/her heirs or beneficiaries.

Estate Tax

A tax levied by the federal and/or state governments on the value of certain types of gifts (or an estate) made upon the giver's death.

Exemptions

Deductions from adjusted gross income based on the number of persons supported by the taxpayer's income.

Federal Withholding Tax

Taxes based on the level of earnings and the number of withholding allowances claimed that are deducted by an employer from the employee's gross earnings each pay period.

Financial Assets

Intangible assets, such as savings accounts and securities that are acquired for some anticipated future return

Financial Goals

Short and long term results that an individual wants to attain, such as controlling living expenses, managing one's tax burden, establishing savings and investment programs and meeting retirement needs.

Fixed Rate Mortgage

The traditional type of mortgage in which both the rate of interest and the monthly mortgage payment are fixed over the full term of the loan.

Future Value

The value to which an amount today will grow if it earns a specific rate of interest over a given period of time. It can be used to find the yearly savings needed to accumulate a given future amount of money.

Gift Tax

A tax levied by the federal government on the value of certain types of gifts made during the giver's lifetime.

Grantor

A party in a trust relationship who transfers property to a second party for the benefit of third parties.

Gross Estate

All property subject to federal estate taxes at a person's death.

Gross Income

The total of all a taxpayer's income (before any adjustments, deductions, and/or exemptions) that is subject to federal taxes; it includes active, portfolio and passive income.

Growth Stock

A stock whose earnings and market price have increased over time at a rate that is well above average.

Guaranteed Renewability

Policy provision assuring continued insurance coverage for the insured's lifetime as long as he/she continues to pay premiums. The insurer may raise premiums in the future; however, if the claims experience for the insured's peer group of policyholders is unfavorable.

Health Maintenance Organization (HMO)

An organization consisting of hospitals, physicians, and other health care personnel who have joined together in a central facility to provide necessary health care services to its subscribers.

Home Equity Credit Line

A line of credit issued against the existing equity in a home.

Homeowner's Insurance

Insurance required by mortgage lenders that typically covers the replacement value of a home and its contents.

Income Stock

A stock whose chief appeal is the dividends it pays out; typically offers dividend payments that can be expected to increase over time.

Indemnity (Fee-For-Service) Plans

Health care insurance plan in which the person or organization from which you get the health care services is separate from the insurer, who pays the provider or reimburses you for a percentage of expenses after a deductible. These plans provide unlimited choice of doctors and hospitals.

Individual Retirement Account (IRA)

A retirement plan, open to any working American, to which a person may contribute a specified amount each year (up to \$2000 per person); while annual contributions to IRAs may or may not be tax deductible the earnings from all IRAs do accrue on a tax-deferred basis.

Inflation

A state of the economy in which the general price level is rising due to excessive demand or rapidly rising production costs; usually occurs during the recovery and expansion phases of the economic cycle.

Installment loan

A loan that is repaid in a series of fixed scheduled payments rather than a lump sum.

Intestacy

The situation that exists when a person dies without a valid will.

Investments

Assets like stocks, bonds and mutual funds that are acquired for the purpose of earning a return rather than providing a service.

Irrevocable Trust

A trust in which the grantor relinquishes title to the property placed in it as well as the right to revoke or terminate it.

Joint Tenancy With Right of Survivorship

A type of ownership by two or more parties, with the survivors continuing to hold all property on the death of one or more of the tenants. Each joint tenant can unilaterally sever the tenancy.

Keogh Plan

An account to which self-employed persons may make payments, up to the lesser of \$30,000 or 20 percent of earned income per year, that may be taken as deductibles from taxable income; the earnings on such accounts also accrue on a tax-deferred basis.

Lease

An arrangement in which the lessee receives the use of a car (or other asset) in exchange for making monthly lease payments for a specified period of time.

Liabilities

Debts, such as credit card charges, installment loan balances, and real estate mortgages.

Liability Insurance

Insurance that protects against financial losses arising from the insured's responsibility for property losses or injuries to others.

Liquid Assets

Assets that are held in the form of cash or can be readily converted to cash with minimal or no loss in value; used to meet living expenses, make purchases, pay bills and loans, and provide for emergencies and unexpected opportunities.

Liquidity Ratio

Liquid assets divided by total current debts; measures ability to pay current debts.

Living Trust

A trust created during the grantor's lifetime.

Living Will

A document that states, in very precise terms the treatment that a person wants and to what degree he/she wishes them continued if he/she becomes terminally ill.

Loan to Value Ratio

The maximum percentage of value of a property that the lender is willing to loan.

Long Term Care

The delivery of medical and personal care, other than hospital care, to persons with chronic medical conditions resulting from either illness or frailty.

Managed Care Plans

Health care plans in which subscribers contract directly with the provider organization, which furnishes comprehensive health care services for a fixed fee from a designated group of providers who meet stringent selection criteria. These plans emphasize cost control and preventative treatment.

Money Market Deposit Account (MMDA)

A savings account, offered by banks and other depository institutions, that is meant to be competitive with a money market mutual fund.

Money Market Mutual Fund

A mutual fund that pools the funds of many small investors and purchases high return short term marketable securities offered by the U.S. Treasury, major corporations, large commercial banks, and various government organizations.

Mortgage Insurance

A type of insurance policy that protects the mortgage lender from loss in the event the borrower defaults on the loan; typically required by lenders when the down payment is less than 20 percent.

Net Worth

An individual's or family's actual wealth, determined by subtracting total liabilities from total assets.

Negotiable Order of Withdrawal Accounts (NOWs)

A checking account on which the financial institution can pay whatever rate of interest it deems appropriate.

Net Asset Value (NAV)

The price at which a mutual fund will buy back its own shares; NAV represents the current market value of all securities the fund owns less any liabilities.

Open Account Credit

A form of credit extended to a consumer in advance of any transactions; type of credit that accompanies charge accounts and credit cards.

Open Account Credit Obligations

Current liabilities that represent the balances outstanding against pre-established credit lines, which are used to purchase various types of goods and services.

Open End Lease

An automobile lease under which the estimated residual value of the car is used to determine lease payments; if the car is actually worth less than this value at the end of the lease, the lessee must pay the difference.

Personal Auto Policy (PAP)

A comprehensive automobile insurance policy developed to in the 1970s to be easily understood by the “typical” insurance purchaser.

Personal Financial Planning

Planning that covers the key elements of an individual’s financial affairs and is aimed at achievement of his/her financial goals.

Personal Property

Tangible assets that are movable and used to provide the general comforts of life; includes automobiles, household furnishings, and jewelry.

Preferred Provider Organizations (PPOs)

Health care providers that provide comprehensive health care services to its subscribers within a network of physicians and hospitals.

Prepaid Card

A plastic card with a magnetic strip or microchip that stores the amount of money the purchaser has to spend and deducts the value of each purchase; eliminates the need to carry cash.

Prestige card

A type of bankcard that offers higher credit limits; has stricture requirements for qualifications, and generally offers more features than its regular counterpart.

Price-Earnings Ratio (“P/E”)

This is the market price of the stock divided by the current per share earnings of the corporation. More on P/E

Prime Rate

The rate of interest a bank uses as a base for loans to individuals and small to midsize business.

Probate

The court-supervised process of liquidation that occurs when a person dies; it consists of collecting money owed the decedent; paying his/her debts; and distributing the remaining assets to the appropriate individuals and organizations.

Probate Estate

The real and personal property owned by a person that is transferred at death according to the terms of a will or under intestate laws in the absence of a valid will.

Profit Sharing Plans

An arrangement in which the employees of a firm participate in the company’s earnings.

Property Insurance

Insurance coverage that protects real and personal property from catastrophic losses caused by a variety of perils.

Qualified Pension Plan

An arrangement in which the employees of a firm participate in the company’s earnings.

Real Property

Tangible assets that are immovable, such as land and anything fixed to it. such as a house; generally have relatively long lives and high costs.

Renewability

A provision in term policies that allows the insured to renew his/her policy for another term without proof of insurability. The best type of renewability, from the insured's viewpoint is the "guaranteed renewable provision".

Residual Value

The remaining value of a leased car at the end of the lease term.

Revocable Living Trust

A trust in which the grantor reserves the right to revoke it and to regain control of the trust property.

Revolving Line of Credit

A type of open account credit offered by banks and other financial institutions that can be accessed by writing checks against demand deposit or specially designed credit line accounts.

Risk Assumption

The choice to bear or accept risk.

Risk Avoidance

Avoidance of an act that would create a risk.

Salary Reduction (401k Plan)

An agreement under which a portion of a covered employee's pay is withheld and invested in an annuity or other qualified form of investment. The taxes on both the contributions and the account earnings are deferred until the funds are withdrawn.

Savings and Loan Association (S&L)

A financial institution that channels the savings of its depositors primarily into mortgage loans for purchasing and improving homes. Due to deregulation, however, S & Ls now offer a competitive range of financial products and services.

Savings Ratio

Cash surplus divided by after-tax income; indicates relative amount of cash surplus achieved.

Secured (Collateralized) Credit Cards

A type of credit card that is secured with some form of collateral, like a bank CD. With these

cards, the amount of credit you get depends on how much collateral you can put up.

Simple Interest

Interest that is paid on only the initial amount of the deposit.

Standard Deduction

A blanket deduction that depends on the taxpayer's filing status, age, and vision and can be taken by a taxpayer who doesn't have sufficient itemized deductions.

Solvency Ratio

Total net worth divided by total assets; measures the degree of exposure to insolvency.

Survivorship Life Insurance

Life insurance that covers two persons, but only pays when the second one dies, also known as "second to die" insurance.

Tangible Assets

Physical assets such as real estate and automobiles that can be held for either consumption or investment purposes.

Tax-Deferred

Income that is not subject to taxes immediately but which will be subject to taxes at a later date.

Tenancy by Entirety

A form of ownership by husband and wife recognized in some states in which the property automatically passes to the surviving spouse. Tenancy can be severed only by mutual agreement, divorce, or conveyance by both spouses to a third party.

Tenancy In Common

A form of joint ownership under which there is no right of survivorship, and each co-owner can leave his/her share to whomever he/she desires.

Term Life Insurance

Insurance that provides only death benefits, for a specified period of time, and does not provide for the accumulation of any cash values.

Time Value of Money

The concept that a dollar today is worth more than a dollar received in the future; it exists as long

as one can earn a positive rate of return (interest rate) on investments.

Trust

A relationship created when one party, the grantor, transfers property to a second party, the trustee, for the benefit of third party(ies), the beneficiaries.

Trustee

An organization or individual hired by the grantor to manage and conserve his/her property for the benefit of the beneficiaries.

Umbrella Personal Liability Policy

An insurance policy that provides excess liability coverage for both homeowners and automobile insurance as well as coverage in some areas not provided for in either of those policies.

Unified Tax Credit

The credit that can be applied against the tentative gift or estate tax; the credit in 1999 is \$211,300 which absorbs all the tentative tax on taxable transfers up to \$650,000. The amount of the credit and the amount of the tentative tax absorbed rises and then levels off at \$345,800 and \$1,000,000, respectively, in 2006 and beyond.

Universal Life Insurance

A type of insurance contract that combines term insurance (death benefits_ with a tax-deferred savings/investment account that pays competitive money market interest rates.

U.S. Treasury Bill (T-Bill)

A short term (three month to one year maturity) debt instrument issued by the U.S. Treasury in the ongoing process of funding the national debt.

Variable Life Insurance

Life insurance in which the benefits payable and the cash value accrual are related to the return being generated on the investments selected .

Waiting Period (Elimination Period)

The period of time, after the insured meets the eligibility requirements of his/her policy, during which no benefits are paid.

Whole Life Insurance

Life insurance that is designed to offer financial protection for the entire life of the insured; it allows for the accumulation of cash values, along with providing stipulated death benefits.

Will

A written and legally enforceable document that expresses how a person's property should be distributed upon his/her death

Workers Compensation Insurance

A type of health care insurance, required by state and federal governments and paid for by employers that compensates workers for job-related illness or injury.

RISK ASSESSMENT AND STRATEGY WORKSHEET

Risk Category	Specific Risk within Category	Tolerance for this Risk	
Strategies Available to Manage Risk based on Tolerance	Tool(s)	Resource Contact	Annual Cost
Avoid			
Shift/Transfer			
Reduce			
Retain/Assume			

