

Business Owner Life-stage Design
BOLD Family Farm Strategy

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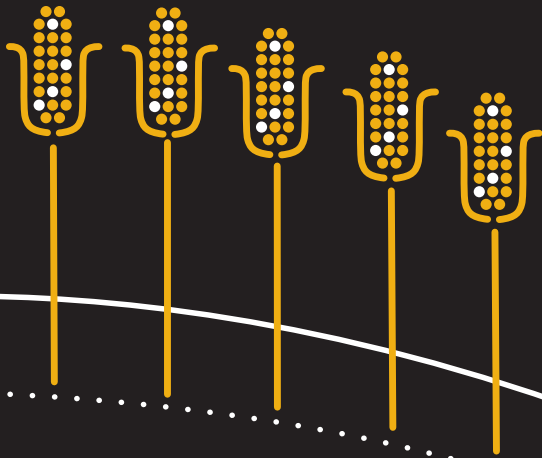
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Financial Professional

KEEPING THE FAMILY FARM IN THE FAMILY

Succession and exit strategies for **BOLD** family farms





BOLDLY PROTECTING A PROUD WAY OF LIFE

Life insurance can benefit farmers in many phases of business and life. Your farmer clients need a strong carrier they can trust to provide quality solutions that help address their needs now and in the years ahead.

As Securian Financial Group companies, Minnesota Life and Securian Life are part of one of the nation's largest and strongest life insurance providers.¹ Learn why millions of clients and thousands of financial professionals trust us to help protect what matters most. Call your Life Sales Support Team today.

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Don't overlook the clients

WHO FEED THE WORLD

Farmers are integral to American life. They've been given the opportunity to own and maintain a piece of land how they saw fit; to build from scrub brush, soil and weeds, and pass a legacy from one generation to the next. For many it is a way of life – a part of American history – a business, and a legacy to pass down to the next generation.

Building and growing a family farm requires attention to not only the current operations, but also what the owner wants to pass on to the next generation – and that requires important financial preparation right now.

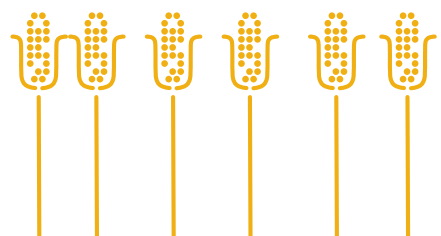
Farmers are business owners who need your help with:

Immediate concerns:

1. Growing their business
2. Preparing for the expected
3. Preparing for the unexpected

Future needs:

1. Saving enough for retirement
2. Eventually selling the operation for maximum value
3. Maximizing and efficiently transferring the value of their estate



BOLD priorities

The BOLD Family Farm Strategy is a slightly different approach within Securian's Business Owner Life-stage Design (BOLD) campaign. Above all, a farmer is most concerned with keeping the family farm in the family, but a farmer will face several other issues.

Retirement/Stepping back Your clients' retirement strategies should reflect their vision for retirement: will they retire completely, or simply step back from actively managing the business? Limiting the amount of taxes they pay in retirement helps them retire comfortably and pass more wealth on to their heirs.

Chronic illness protection Healthcare costs for a chronic illness can quickly deplete the assets your clients have accumulated for retirement. Chronic illness protection can help pay for expenses associated with medical care.

Estate planning Securian's estate planning campaign – EPIC – focuses on your client in the present, preparing your client for retirement, while maximizing and protecting his or her estate's potential.

Key person protection Typically, the farmer is the key person on the farm. Does the operation have the capital and resources to continue if something happens to him or her?

Business succession A business succession strategy is a key to the success and survival of your client's operation. Strategies such as buy-sell arrangements and estate equalization can successfully keep the family farm in the family.

Getting started

BOLD starts with your client's current state of affairs and ends when the farmer hands over the reins, ideally to his or her heirs. In order to properly implement the BOLD strategies, farmers answer questions regarding their stakeholders, current situation and timeline.

➔ **ACTION** step 1: Identify who's involved

Just like small business owners, farmers have both business and personal stakeholders:



THE FARMER



THE FARMERS FAMILY

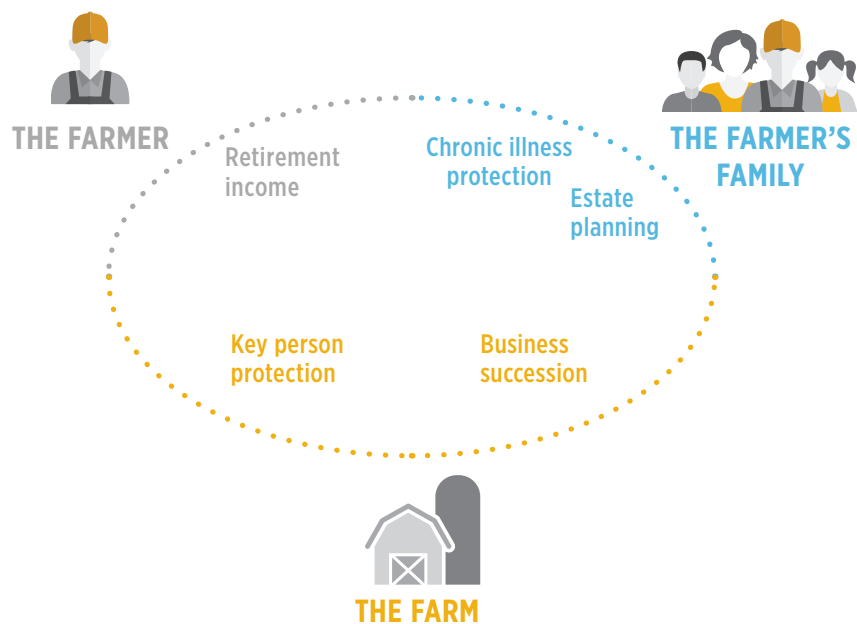


THE FARM

Using the Farmers and Ranchers Initial BOLD questionnaire (F79732-10), engage your farm client about who will design and implement the BOLD strategy, as well as the stakeholders who will be impacted.

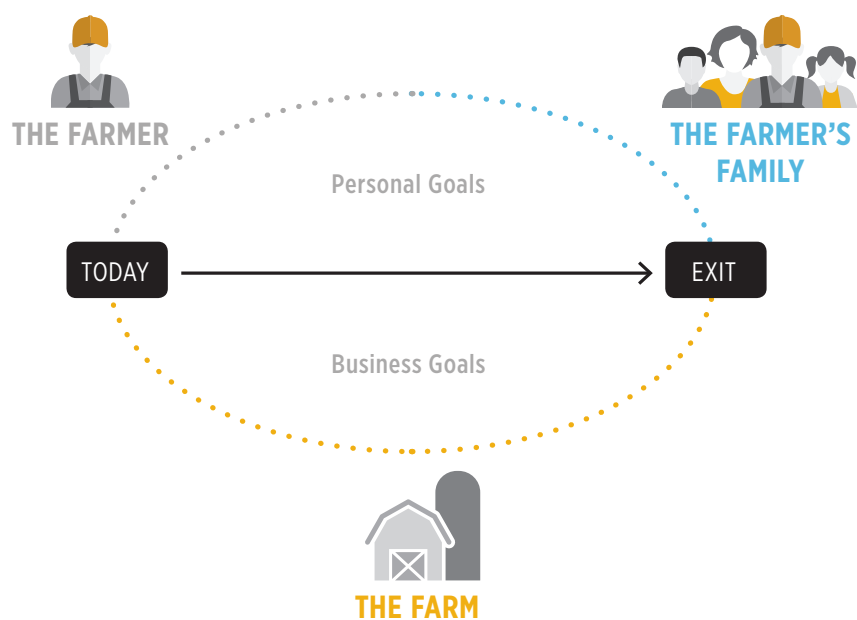
➔ ACTION step 2: Analyze the current situation

Next, you need to understand your client's current business and personal life-stages. This includes discussing existing strategies within five areas of concern – all of which are tied to the business's growth:



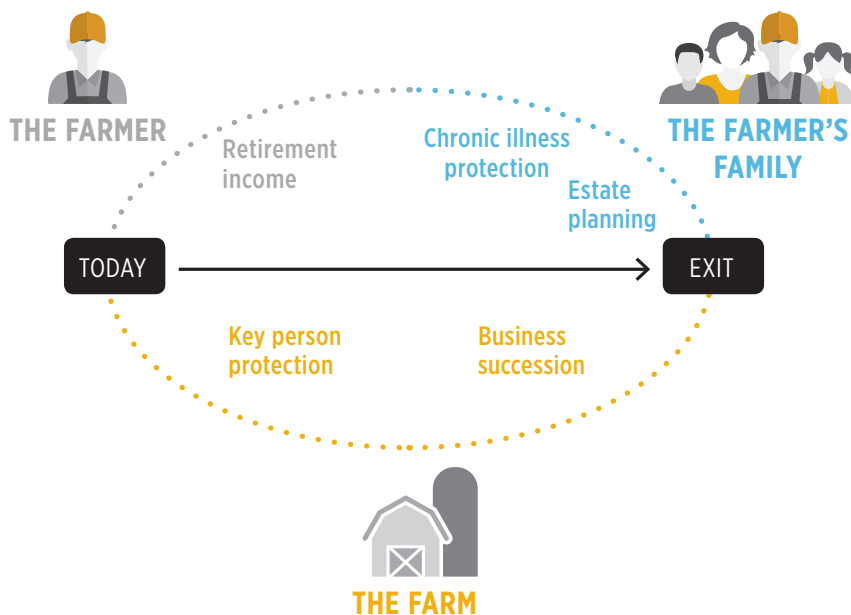
➔ ACTION step 3: Determine the farmer's direction

Farmers must balance family needs and desires with business needs and desires at every life-stage of ownership. **There are two main directions the business owner can take: personal or business goals.** A complete BOLD strategy will explore both directions.



➔ ACTION step 4: Choose BOLD priorities

Once you've identified your client's top priority, you can move on to the subsequent BOLD questionnaires for retirement, estate planning, key person protection and most importantly, business succession:

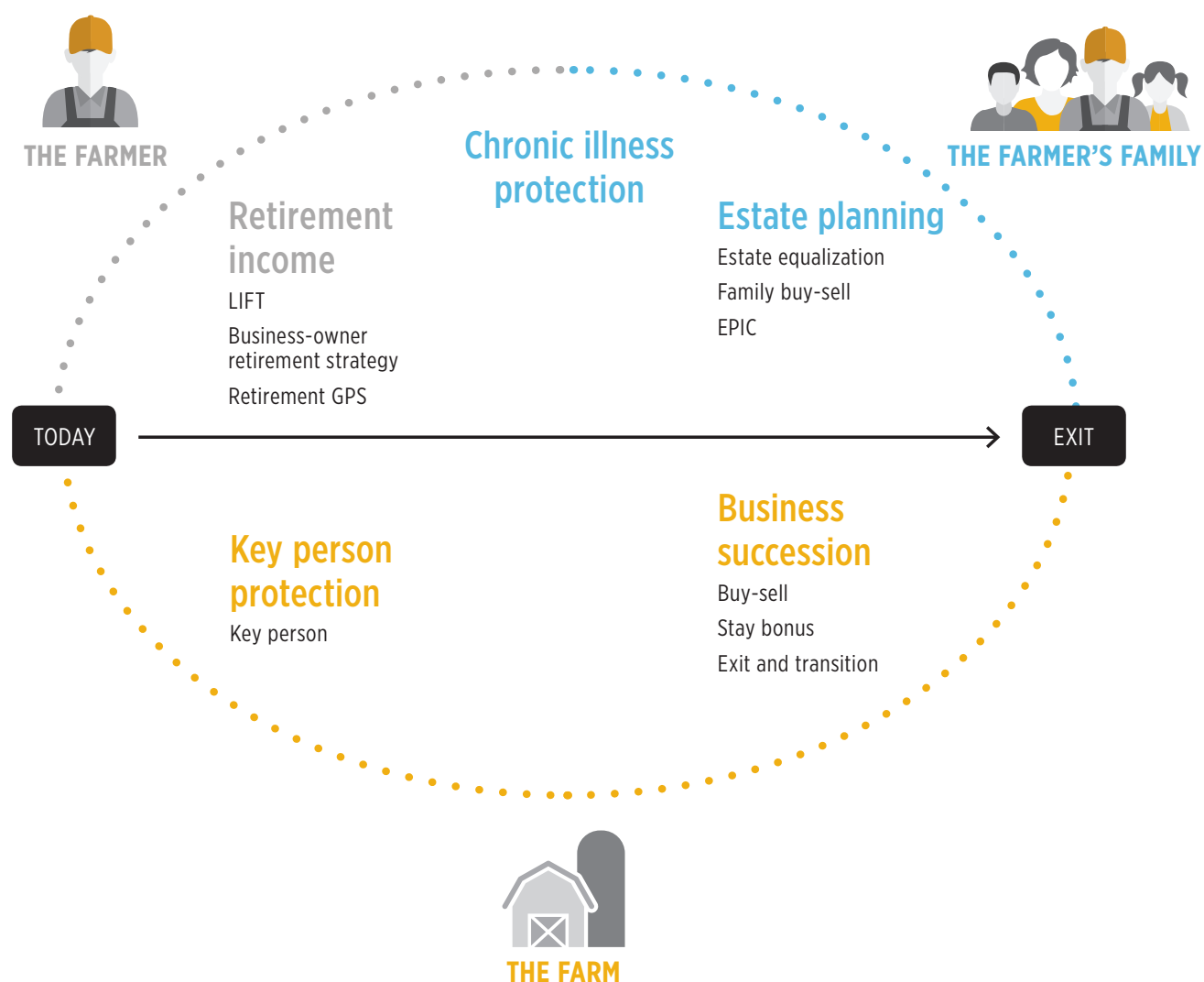


While **BOLD** encompasses a wide range of goals and strategies, it allows your clients to focus on one area to make strategizing and implementing solutions more manageable.



Using the **BOLD** tools

BOLD offers six questionnaires to help you collect the information necessary to design strategies that help address your clients' concerns and priorities. A key question on each questionnaire frames the course of action for your clients. Responses to each questionnaire will guide you to the appropriate products and marketing resources to help present these solution(s) to your clients:



Succession and exit strategies **for farmers**

Above all else, a farmer will have no prouder moment than the day his or her heir takes over operation of the farm. Even though your client may have placed estate planning as the highest priority, generating and funding effective succession strategies can take years.

Your clients generally have two choices: pass the farm to a family member, or find the right buyer for the operation. The rest of this advisor guide will focus on succession and exit strategies for the family farm.

1. Succession strategy: keeping the family farm in the family

This strategy focuses on having the right estate plan to ensure the family farm stays within the family, while keeping peace within the family.

2. Exit strategy: selling the family farm to the right buyer

This strategy focuses on having the right buyer of the family farm and planning for all the contingencies that may arise.

Succession route: Keeping the family farm in the family

These strategies are for farmers who have identified a family member to whom they wish to transfer the farming operation.

Determining when to transfer ownership of the operation can be answered different ways:

1. Gift and/or sell the farm today

Key BOLD priorities: retirement income, estate planning, business succession

2. Gift and/or sell the farm at retirement

Key BOLD priorities: retirement income, estate planning, business succession

3. Bequeath and/or sell the farm upon death

Key BOLD priorities: estate planning, business succession

Three steps for the succession route

Step one: Work closely with an estate-planning attorney to complete the basic planning for the client.

Some of the legal documents that may need to be completed are a will or revocable trust, powers of attorney, and a health care directive.

Step two: Keep the family peace.

If the farm owner will pass the farm to one or several children, the parents will need to look for solutions to keep the family peace. One popular strategy is estate equalization.

Step three: Prepare for the expected and the unexpected.

The proper strategy will need to account for the expected (death) and the unexpected (chronic illness). Securian provides solutions for both contingencies.

Lifetime transfers (today or at retirement)

Transaction	Arrange sale, gift, or a combination of both to a family member
Legal transactions or documents	Sale – Outright sale, installment note or contract for deed Gift – Direct gift, bargain sale or Family Limited Partnership (FLP)
Tax ramifications	Income-tax ramifications <ul style="list-style-type: none">• Capital gains on difference between sales price and cost basis• Ordinary income on any interest charged Gift-tax ramifications <ul style="list-style-type: none">• Using annual exclusion or lifetime exemption amount• No step-up in basis for lifetime gifts
Retirement income	Proceeds of sale, or income stream from installment note can be used for retirement income, which may include annuities and life insurance for supplemental retirement income
Concerns	<ul style="list-style-type: none">• Loss of control of the farm• Is there enough retirement income independent of the farm?

Bargain sale

A bargain sale is a strategy where the farmer sells the operation for a price lower than its fair market value. For example, the senior farmer sells the operation to the junior farmer for \$1 million, when its fair market value is \$2 million. The IRS will view this transaction as a sale of \$1 million and a gift of \$1 million. Many times, the sale price is paid as an installment sale using annual cash rents.

Advantages

- Installment sale proceeds can be used as retirement income.
- The bargain sale may be more financially feasible for the junior farmer.

Concerns

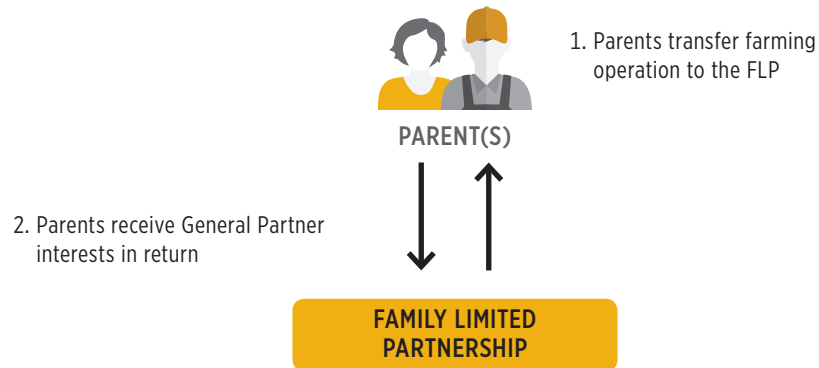
- Low basis (i.e., tax cost) in land.

Family Limited Partnership

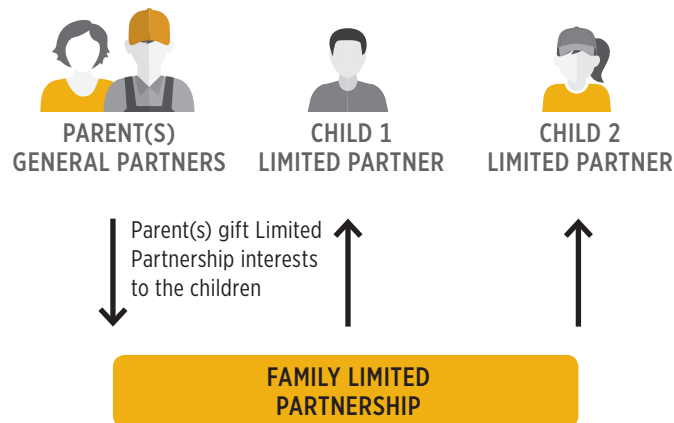
A Family Limited Partnership (FLP) is a strategy used to move wealth from one generation to another. Partners are either general partners (GP) or limited partners (LP). One or more general partners are responsible for managing the FLP and its assets. Limited partners have an economic interest in the FLP but typically lack two rights: control and marketability.

- Limited partners have no ability to control, direct or otherwise influence the operations of the FLP. They can neither buy additional assets, nor sell existing assets, and they cannot act on the partnership's behalf.
- Limited partners also substantially lack the ability to sell their interest, with one typical exception: transfers to immediate family members (spouse, siblings, and direct lineal descendants and ascendants). Typically, FLPs are partnerships limited to family members.
- A discount can be placed on the value of the shares, resulting in a smaller gift.

For example, parent(s) set up an FLP and transfer farming operation assets into the partnership.



Then, parent(s) gift limited partnership interests to the children.



Advantages

- Facilitates gifting from parents at a discount.
- In general, a majority of units will be limited partnership interests (owned by children) to allow general partners (parents) control of the farm.

Concerns

- FLP must adhere to business formalities.
- Legal, accounting and appraisal fees.
- IRS has been challenging the valuation discounts.
- Each year, the partnership will need to file an annual partnership tax return.

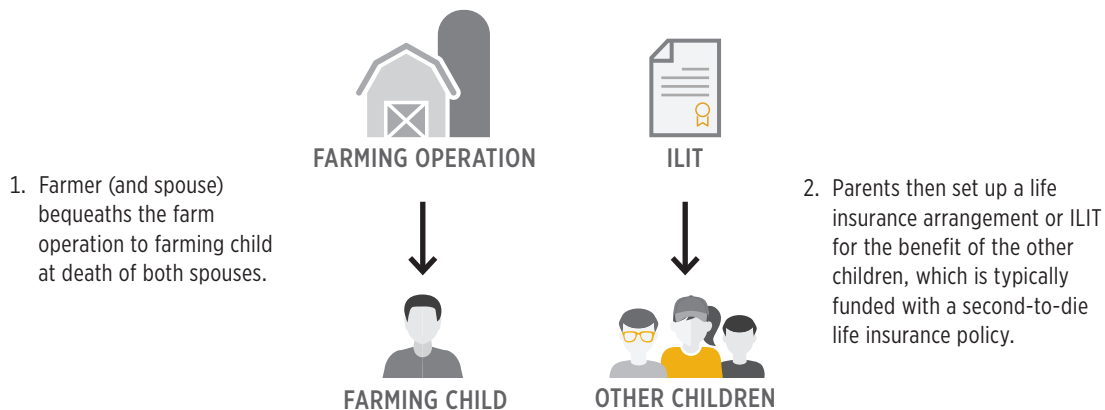
Death transfers

Transaction	Sale – Sale of the operation to farming child(ren) at time of death Bequest – Bequest of the operation to farming child(ren) at death
Legal transactions or documents	Sale – Family buy-sell agreement Bequest – Estate equalization or family management
Tax ramifications	Sale <ul style="list-style-type: none"> Income-tax ramifications – Capital gains on difference between sales price and cost basis (however, it will receive a step-up in value at the time of death of parent(s)) Estate tax ramification – Farming operation will be included in the estate Bequest <ul style="list-style-type: none"> Income-tax ramifications – Farming operation will receive a step-up in value at the time of death of parent(s) Estate tax ramification – Farming operation will be included in the estate

Estate equalization

Estate equalization occurs when the business owner or farmer wants to treat his or her children fairly but maybe not equally. Here, the owner bequeaths the land or business to a child who wishes to farm the land or continue the business. The rest of the assets then will be split among the other children.

Since a large amount of the estate will go to the one child, the owner can equalize the estate by purchasing a life insurance policy and naming the remaining children as beneficiaries of the policy.



Advantages

- Farm is in the estate until death(s) of the parent(s).
- Farming child receives a full step-up in basis in the farm.

Concerns

- Using an ILIT can address potential estate tax ramifications.
- Farming parent will need to pay (and possibly gift) the premiums.

The family management strategy

The family management strategy is where the farmer bequeaths the operation into a FLP at the time of death. The farmer can bequeath the entire operation to all of the children and name one child as a general partner of the operation. Each child will receive income from the operation, and the entire operation will pass from one generation to the next. The advantages and concerns are the same as an FLP in lifetime transfer.

Family buy-sell

A family buy-sell arrangement consists of the farming child(ren) entering into a buy-sell agreement with the parents, which specifies that they will purchase the land or business upon the death of both parents. This buy-sell arrangement would be funded by the farming child(ren)'s purchase of a life insurance policy on their parents.

Family buy-sell arrangement



Advantages

- Farm is in the estate until death(s) of the parent(s).
- Farming child receives a full step-up in basis in the farm.

Concerns

- Estate tax ramifications because the operation is within the estate.
- Farming child needs to pay the life insurance premiums.

Exit route: Selling the family farm to the right buyer

These strategies are for farmers who have identified an unrelated third party to whom they want to transfer the farming operation.

Exit today, at retirement or death

An owner will exit the farming operation in one of three ways:

1. Sell the farm today

Key BOLD priorities: retirement income, business succession

2. Sell the farm at retirement

Key BOLD priorities: retirement income, business succession

3. Sell the farm upon death

Key BOLD priorities: estate planning, business succession

Three steps for the exit route

Step one: Finding the right buyer

Finding the right buyer can be difficult. The farm owner will want to consider several factors, including the buyer's financial capabilities and farming experience.

Step two: Finding the right time to sell

The "right time" to sell is a personal decision. Having spent a lifetime cultivating the family farm, selling it requires adequate preparation – both financially and emotionally.

Step three: Preparing for the expected and unexpected

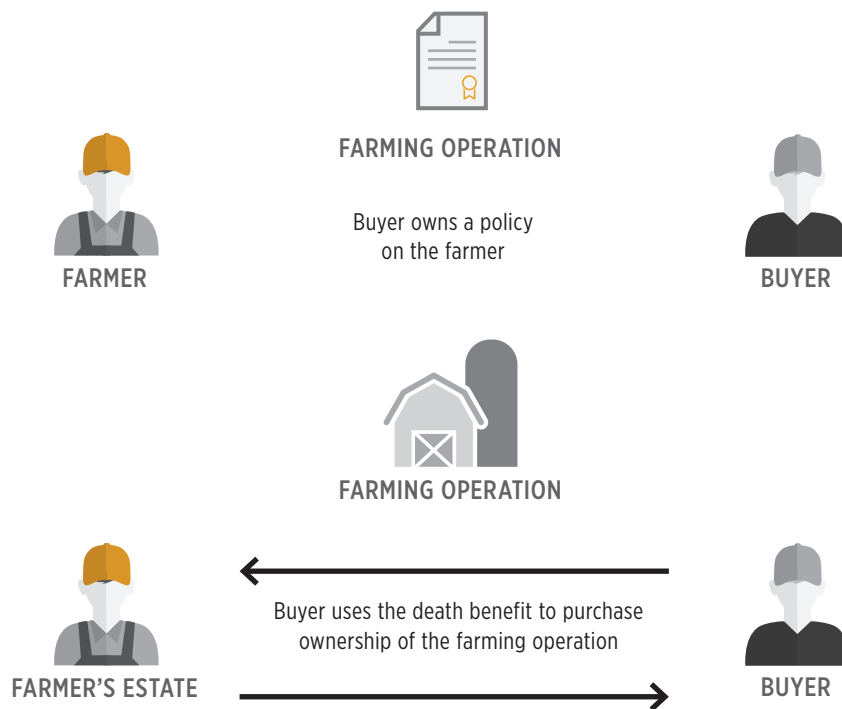
The proper strategy should account for the expected (death) and the unexpected (chronic illness). Securian can provide solutions for both of these contingencies. One popular strategy using life insurance is a one-way buy-sell.

	Lifetime transfers	Transfers at death
Transaction	Arrange sale to a third party	During lifetime – Arrange rental agreement with a third party At death – Arrange a one-way buy-sell agreement
Legal transactions or documents	Outright sale, installment note or contract for deed	During lifetime – Rental agreement (cash or crop lease) At death – Buy-sell agreement with unrelated third party
Tax ramifications	Income-tax ramifications <ul style="list-style-type: none"> • Capital gains on difference between sales price and cost basis • Ordinary income on any interest charged 	Income tax ramifications <ol style="list-style-type: none"> 1. Rental income – ordinary income 2. Possible passive activity income Estate tax ramifications – Fair market value of the farm will be included in the estate at death (value may be determined by valuation in the buy-sell agreement)
Retirement income	Proceeds of sale used for retirement and remaining proceeds distributed to heirs	Use rental income for retirement objectives
Concerns	<ul style="list-style-type: none"> • Finding a buyer • Getting a fair market price 	

One-way buy-sell

In a one-way buy-sell, the farmer enters into a buy-sell arrangement with an unrelated third party to sell the property upon the farmer's death.

- The unrelated third party is the owner and beneficiary of a policy on the farmer.
- The farmer may bonus premium payments to the unrelated third party, if that individual is a key employee.
- Upon the farmer's death, the unrelated third party is required to purchase the ownership from the estate of the deceased farmer.
- The unrelated third party then becomes sole owner of the farming operation.



Advantages

- Farm is in the estate until death(s) of the parent.
- Unrelated third party receives a full step-up in basis in the farm.

Concerns

- Estate tax ramifications because the farm is within the parent's estate.
- Unrelated third party will need to pay the premiums on the policy.

A decorative graphic featuring a large light blue arrow pointing right, a smaller yellow arrow pointing right inside a yellow circle, and a grey arrow pointing right inside a grey circle. Dotted lines in blue, yellow, and grey connect these elements and form a path around the text.

TAKE BOLD ACTION TODAY

Family farms come in all shapes and sizes – and so do their needs. Use Securian’s Business Owner Life-stage Design to identify and implement solutions that fit your client’s business and life-stage.

VISIT OUR BOLD MICROSITE for resources to start taking BOLD action to help maximize your sales in the business owner market: securian.com/BOLD

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For more information about the rating agencies and to see where our ratings rank relative to others, visit securian.com/ratings.

WE ARE a highly rated company headquartered in St. Paul, Minnesota.

WE DO what's right. Our strong record of transparency, compliance and ethical conduct sets us apart.

WE ARE a trusted long-term partner with a laser-sharp focus on helping people reach their goals – now and in the years ahead.

² In all states except New York. In New York, policies are issued by Securian Life Insurance Company, a New York authorized insurer. Minnesota Life is not an authorized New York insurer and does not do insurance business in New York. Product availability and features may vary by state. Each insurer is solely responsible for the financial obligations under the policies or contracts it issues.

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Policy loans and withdrawals may create an adverse tax result in the event of lapse or policy surrender, and will reduce both the surrender value and death benefit. Clients should consult their tax advisor when considering taking a policy loan.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

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