

Farm Management



LIFE INSURANCE FOR YOUR FARM OR BUSINESS

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A new year has arrived, and for many people, a lot of changes have come with it.

Our need for life insurance also changes over time. What was adequate protection five or ten years ago may be too little or too much today. Now is a good time to review your life insurance coverage.

The primary reasons for buying life insurance are for protection from loss of income and sometimes as a method of forced savings. But in addition to the usual reasons for buying life insurance, it also can assist in the transfer of your farm or business to your children or heirs.

For example, if you are operating a farm or business as a partnership, what happens to the business if your partner dies? Will the partner's family or heirs want to stay in the business, or will they want out? If they decide to stay, do they possess the expertise necessary to run the business? The ideal solution is to arrange for the orderly transfer

or sale of the business prior to death.

One method of transfer is a buy-sell agreement. A buy-sell agreement consists of two parts. The first part of the agreement specifies the terms under which each owner agrees that his or her share of the business will be sold to the remaining owners at death. The second part is an agreement by each owner to buy the share of the deceased owner. The agreement should also specify how the value of the property will be determined so as to avoid disagreements later. This is also known as a cross-purchase plan.

How will the surviving partner(s) be able to marshal the resources necessary to buy out the business? This is where life insurance can come to the rescue. If each partner carries a sufficient amount of insurance on the life of the other partner(s) to fund the buy out the deceased partners interest, a smooth transfer of the business can be accomplished.

Typically a cross-purchase agreement might work like this. Tom and Harry are equal partners in a business valued at \$500,000. Tom purchases a \$250,000 life insurance policy on Harry's life. Harry does the same on Tom's life.

Assuming Tom dies first, his share of the business passes to his estate. The insurance proceeds on Tom's life are paid directly to Har-

ry. Then in accordance with the cross-purchase agreement, Harry pays cash to Tom's estate. In return for the cash payment, Tom's executor transfers Tom's share of the business to Harry. Harry is now the sole owner of the business.

If there had been three equal partners initially, each partner would carry life insurance on each of the other two partners in the amount of one-half of the value of the deceased partners interest, or equal to one-sixth the total value of the business.

Life insurance also can provide a solution to a situation where a parent wants to pass on the business to his children. Suppose there are three children, only one of whom is interested in continuing

the business. The parent wants each child to share equally in the estate, but does not want to have to sell the farm. If the child who wants to continue the business purchases sufficient insurance on the life of the parent, the proceeds can be used to buy out the interest of the other children. Because the policy on the life of the parent is owned by the child, it will not be included in the parents' estate and is not taxable to the child. The premiums, however, are not tax deductible to the child.

Alternatively, the parent could purchase a life insurance policy on his or her own life, again in an amount that would equalize the estate to be divided among the three children. In this case, howev-

er, the proceeds from the policy would be subject to the estate tax.

Life insurance can provide liquid resources to pay estate taxes.

Because federal estate tax and state inheritance taxes must be paid in cash, liquid resources will be needed to prevent a forced sale of assets. Proper estate planning, however, can minimize the payment of estate and inheritance taxes.

Just as there is no shoe size that fits all persons, there is no life insurance program that fits all people or situations. Before pursuing any of these alternatives, you should first consult your insurance agent and/or attorney to see that it fits into your overall estate plan.

New Holland Vegetable Day Set

NEW HOLLAND (Lancaster Co.) — Fresh market vegetable producers will want to attend the 1996 New Holland Vegetable Conference sponsored by the ELANCO Adult Farmer Program and Lancaster County Cooperative Extension on Feb. 19.

This year's program features 19 different topics dealing with the production and marketing of fresh produce.

Steve Groff, a grower from Holtwood, will discuss his experiences growing vegetables in a hairy vetch cover crop for weed control and nitrogen management. Scott Walker, from Jersey Acres Farms, will be on hand to discuss annual strawberry production on plastic, as well as asparagus production.

Farmers interested in using compost will be interested in the results of compost trials at Penn State and the Rodale Institute. The marketing end of vegetable pro-

duction will be covered with sessions on topics such as ethnic market needs, post harvest quality, and contract fresh market vegetable production. Greenhouse growers will find topics on greenhouse pest management and greenhouse design.

Variety trials are always popular and this year's program will discuss sweet corn and pumpkin varieties as well as bedding plant varieties. As always, university researchers will be on hand to discuss the latest in disease, weed, and insect control in vegetable crops.

Irrigation management, sprayer technology, and new water use regulations round out the program. This year's program has something for everyone involved in your vegetable operation.

Registration will begin at 9 a.m. and the meeting will run until 3:30 p.m. The meeting will be held at the Summit Valley Elementary School, one mile South of New Holland on Eastern School road between New Holland Road and Kinzer Avenue.

For more information, contact Jeff Stoltzfus, (717) 354-1522.

Builders, Ag Suppliers Conference Set

MEADVILLE (Crawford Co.) — A Builders' and Ag Suppliers' Conference has been planned for March 12 at the Days Inn in Meadville.

The purpose is to make available the latest information in agricultural engineering dealing with animal housing and animal production. Topics will include free-stall housing layout, milking center design, upgrading existing facilities, and more.

Speakers include Richard

Stowell, agricultural engineering, Ohio State University; Robert Graves, agricultural and biological engineering, Penn State University; and John Tyson, agricultural engineering from Erie County Cooperative Extension.

Cost of the conference is \$20 and registrations must be received by March 4.

For registration information, contact John Tyson at the Erie County Cooperative Extension Office, at (814) 825-0900.

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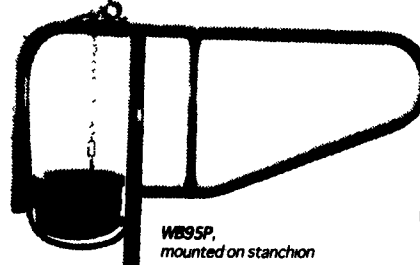
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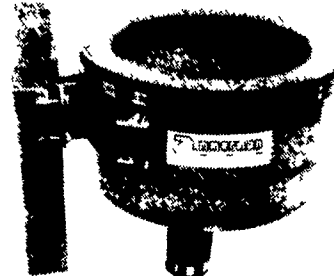
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