

Ready Set Retire



Farming: Special Considerations

Like the rest of America, Iowa's farmers are graying. According to the most recent Census of Agriculture, almost half of Iowa's farmers are between the ages of 45 to 64. Many of them look forward to retirement; others are putting off thoughts about the time when they will no longer actively farm. The purpose of this series is to present several issues that should be addressed before retirement so that the transition can be accomplished smoothly with adequate resources and few unpleasant surprises.

What is meant by "planning for retirement?" Planning—any kind of planning—means building a bridge between the present and the future. Planning involves deciding, first of all, what you want the future to be like, and deciding what needs to be done between now and the future to realize your vision. It means identifying and weighing alternative courses of actions.

Planning for retirement involves thinking about where and how you want to live and the income necessary to live in that manner. Retirement planning for farm families is complicated because there is a business (the farm) to be considered. Farm families not only need to consider where and how they want to live, but they also must make plans for the business itself, either through arrangements for transferring it to heirs who are already involved in the farm business or through the disposition of the property. Such decisions require careful thought and discussion by all members of

the family. The decisions will not "go away." If not made openly and deliberately before retirement, they may be more difficult at or after retirement.

When planning for the future, there is always a degree of uncertainty; one can never plan with **complete** knowledge about **everything**. But planning for retirement has more uncertainties than most types of planning. You simply cannot know: (1) how long you or your spouse will live, (2) the level of health you will enjoy during those years, and (3) the economic climate between the present and the future and during retirement. Life expectancy tables and your own family history offer clues about the first two variables, and knowledge of economic cycles can provide insights into the last. But, one can never be certain. Plans need to be made that include contingencies for the "worst case" as well as for the "best case."

Setting Retirement Goals

The first step in planning for retirement is to establish retirement goals. Where do you want to live? What kinds of activities do you want to be doing? *Ready, Set, Retire: Financial Planning* (Pm-1167a) offers a list of questions to help in the definition of retirement goals.

For farm couples, two central issues are whether the couple wants to continue living on the farmstead and what will happen to the farm business. A related issue is the desired degree of involvement in the farm business

after retirement. These are separate issues, but they are interrelated. Things are further complicated by the involvement of children (potential heirs to the farm business) in the farming operation. Let us examine the issues one at a time.

Most farm couples approaching retirement have spent their whole lives on the farm, building up the business gradually and making the dwelling that is a part of the farm "home." A new home may have been built or the old farmhouse remodeled to be more functional and comfortable. Often rhubarb and strawberries have been established. Perhaps apple trees provide eating and pie apples well into the winter. The outdoor space and the absence of near neighbors is exactly the setting desired for retirement. Some farm couples may want to remain in that dwelling as long as they are able, even if they no longer want to be involved in the day-to-day operation of the farm business.

Other farm couples find themselves in an older home that simply may be too large for their needs. The four-bedroom farmhouse that burst at the seams when accommodating a growing

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family is expensive to heat now, even with rooms shut off in the winter. Home maintenance can become a chore. The yard and garden become a burden rather than a joy. Dealing with the winter snowstorms soon becomes an even greater chore than in past year. For such couples, retirement may be the opportunity to choose their home and neighborhood, rather than have it be an integral part of the farm business. The couple may want to move to a nearby community or to another part of the country, depending on a variety of factors: family, climate, hobbies, and interests.

Opposing goals can also be seen in the involvement with the farm business. Some couples thoroughly enjoy the psychological rewards that are a part of farming—the feelings of being close to nature in the growing and harvesting of crops and livestock or second-guessing both the weather and the markets each year. These individuals might want to continue some involvement in the farming operation as crop farmers on a smaller scale, as management consultants, or in the raising or feeding of some livestock. Other couples are looking forward to freedom from the obligations and uncertainties that surround any farming operation. They do not want to be involved in any decisions that are a part of farm operation. Nor do they want to continue being tied to a twice-daily feeding or milking schedule.

Many options are open to farm couples regarding both where to live and the degree of involvement in the farm operation. At one extreme, a couple could retain ownership of the farm, live on the farmstead, and have almost no involvement in the farm business. The business operations could be turned over entirely to a farm management firm and the daily operations to a tenant. At the other extreme, the couple could move from the farmstead and still be heavily involved in the daily

decisions and operation of the farm. The important thing is to make decisions that are right for the couple based on how and where they want to live in their later years. Other issues and decisions flow from these initial decisions.

Estimating Expenses and Income

For most farm couples, the farm business is not only the source of current income, it is also the source of income for retirement, whether it is income from the disposition of the property or income from the rental of the land. So, it is important to make some projections about the length of retirement anticipated, living expenses needed, and potential income from all sources.

One of the most difficult things for the couple to do may be to estimate the cost of living in retirement. Worksheet 1 has been developed to help understand current costs, so accurate estimates of future expenses may be made.

Especially difficult may be the estimation of housing costs because the farm business and the dwelling often have financial ties. When there is a single LP gas tank that supplies both the grain dryer and the clothes dryer, it is often difficult to know how much LP gas is needed for the household operation each month. The same is true for electricity, fuel oil, and other utilities. Property tax bills and mortgage payments are for the farm, including the dwelling; therefore, it may be difficult to estimate current housing costs, the first step in projecting future housing costs.

Similarly, if the farm family has a large garden and raises its own beef, pork, or chickens, food costs may be difficult to project. How much of the use of the pickup is for farm business and how much for family activities?

In spite of the difficulties, efforts must be made to isolate and estimate current family living expenditures to provide a basis for future projections. This activity is especially important if the farm couple is planning to move to a different dwelling, because the costs may be quite different than if the couple were to remain in the farm dwelling. Do not forget to include estimates for health and life insurance payments (see *Ready, Set, Retire: Health and Life Insurance*, Pm-1167d).

After estimating current family living expenses, make projections about future expenses. Some expenses may increase. For example, if travel is planned, there will probably need to be more allocated to gasoline, airfare, and meals eaten away from home. If the plans include spending winters in another state, housing and travel expenses in that part of the country will need to be included. Less will probably need to be budgeted for work-related expenses, such as clothing, food, and transportation.

Then, estimate an inflation rate so that estimated expenses can be adjusted accordingly. Unfortunately, estimating inflation is, at best, incredibly imprecise. *Ready, Set, Retire: Financial Planning* (Pm-1167a) provides a formula for adjusting estimated expenses by an estimated inflation rate.

In a similar fashion, anticipated income should be estimated. *Ready, Set, Retire: Income Sources*, (Pm-1167b) can provide assistance in this activity. Start with estimates of the amount that will be received from social security, savings, and investments other than the farm property, Individual Retirement Accounts (IRAs) and Keogh accounts, and retirement plans or pensions accompanying off-farm income. Then, estimate income from the farm property. Different estimates of income should be made for each option that the farm couple is considering. For example, a

Worksheet 1: Estimated Costs of Living

	Now	After Retirement
	Per Month	Per Month
Shelter		
Rent or mortgage payments	\$ _____	\$ _____
Real estate taxes	_____	_____
Insurance	_____	_____
Household Operation and Maintenance		
Home repair, yard care	_____	_____
Water, electric, gas, fuel oil	_____	_____
Telephone, TV antenna/cable	_____	_____
Waste disposal	_____	_____
Home Improvement and Upkeep		
Furniture, fixtures	_____	_____
Floor coverings	_____	_____
Kitchen equipment	_____	_____
Garden, yard equipment supplies	_____	_____
Automobile and Transportation		
Car payment	_____	_____
Repairs	_____	_____
Gasoline and oil	_____	_____
License, registration	_____	_____
Insurance	_____	_____
Other transportation	_____	_____
Food, Beverages		
Food at home	_____	_____
Food away from home	_____	_____
Entertaining expenses	_____	_____
Clothing		
New clothing	_____	_____
Laundry not done at home	_____	_____
Dry cleaning	_____	_____
Shoe repair	_____	_____
Personal		
Cosmetics and toiletries	_____	_____
Barber and beauty shops	_____	_____

	Now	After Retirement
	Per Month	Per Month
Smoking supplies	\$ _____	\$ _____
Stationery, postage	_____	_____
Medical and Health		
Medications	_____	_____
Physician, dentist	_____	_____
Eyeglasses, hearing aids	_____	_____
Health insurance	_____	_____
Recreation, Education, and Other		
Books, newspapers, magazines	_____	_____
Club memberships, dues	_____	_____
Movies, sports events, concerts	_____	_____
Sports and hobby equipment supplies	_____	_____
Vacations, celebrations, weekend trips	_____	_____
Adult continuing education	_____	_____
Pets: care, food, license	_____	_____
Contributions	_____	_____
Gifts	_____	_____
Other	_____	_____
Taxes, Insurance		
U.S., state income taxes	_____	_____
Life insurance	_____	_____
Property insurance (not homeowners)	_____	_____
Savings, Investments		
Banks, savings and loans, credit unions	_____	_____
Company pension, profit-sharing plan	_____	_____
Stocks, bonds, real estate	_____	_____
Retirement: Keogh, IRA	_____	_____
Total Expenses	\$ _____	\$ _____

couple who decides to stay on the farm but rent the land to tenants would want to compare the projected income from land rental to income that could be received if the land were sold on a land contract with annual payments,

or if the land were sold and the proceeds placed in income-producing investments. Worksheet 2 has been designed to help in the estimation of potential retirement income.

Worksheet 2: Estimating Income in Retirement

I. Social Security

To compute average yearly earnings, compare net farm profit with maximum social security earnings base for number of years required

\$ _____

Husband's monthly retirement benefits

Wife's monthly retirement benefits

Total monthly retirement income from social security

\$ _____

II. Farm Property

Estimated sum available from sale of farm property at retirement

\$ _____

A. Monthly interest divided or annuity income if farm is sold and proceeds invested

B. Monthly rental income if ownership of some or all farm property is retained

Total monthly retirement income established from sale or rental of farm property

\$ _____

III. Savings and Investments

Life insurance cash value that can be used up in retirement

\$ _____

Cash value of stocks, bonds, or mutual funds at retirement

\$ _____

Amount of other savings at retirement

\$ _____

Total value of all savings and investment except farm property at retirement

\$ _____

Monthly retirement income estimated from all savings and investments except farm property

\$ _____

IV. Other Sources

Income from a retirement plan, inheritance, etc.

\$ _____

V. Summary

A. Total estimated retirement income available from current or expected resources

B. Estimated retirement income needed. If B exceeds A, this amount must be made up from earnings during retirement or in some other way

\$ _____

The Disposition of the Farm Business

The final decision, related, of course, to the other decisions, is what will happen to the farm when the owner-operators retire. The alternatives available depend on whether the potential heirs to the property are involved or want to be involved in the farm business. Regardless of whether there are operating heirs, the alternatives for the disposition of the business have implications for both income taxes for the couple and inheritance taxes for the heirs. The decisions involved require more knowledge of complex legal issues than most people possess. Early in the process, before decisions have been finalized and papers signed, the couple will want to consult with an attorney who is knowledgeable about estate and income tax issues related to the sale or transfer of farm property.

Two other publications are available that present alternatives for the disposition of the property when there is: (1) an heir to whom the couple wishes to transfer the farm business (*Ready, Set, Retire—Farming: With an Operating Heir*, Pm-1167f), and (2) no heir who is involved or wishes to be involved in the farm operation (*Ready, Set, Retire—Farming: Without an Operating Heir*, Pm-1167g). Both publications discuss the alternatives in some detail, and present tax issues involved in the choices available. A third publication, *Ready, Set Retire—Farming: Investment Planning* (Pm-1167i), discusses investment strategies to ensure that income realized from the farm sale will be available for living expenses of the retired couple. It can be used in conjunction with either of the publications on the disposition of the property.

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