CHOICES
The magazine of food, farm, and resource issues
2nd Quarter 2013 • 28(2)

A publication of the Agricultural & Applied Economics Association
AAEA Agricultural & Applied Economics Association

Retired Farmer – An Elusive Concept

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JEL Classifications: Q2, Q14, Q15, Q18
Keywords: Beginning Farmers, Farm Succession, Generational Transitions, Retired Farmers, Retirement, Retirement Planning

Retirement planning is essential to developing a sustainable family farm. U.S. Census of Agriculture data may obscure true retirement patterns because of the U.S. Department of Agriculture (USDA) definition of a farm and the phenomena of retiring to farming in the United States. Retiring farmers must answer the questions of where to live, what to do, how to fund it, and put the answers against the backdrop of the farm business continuing for the entering generation. Farmers must acknowledge that retirement stirs feelings about loss of control and identity and their mortality. Confronting these feelings and designing a retirement plan tailored to acknowledge and address them can pave the way to the financial planning aspects of retirement. It can also assist in planning for true transfer of managerial responsibilities and decision-making and provide the owner generation a legacy of a sustainable farm business well managed by the next generation.

Increasing Age of Farmers and Retirement Plans

The increasing average age of farmers reported by the USDA Census of Agriculture seems to indicate that farmers are delaying retirement, but the data do not provide definitive answers for the increasing average age, retirement decisions or attitudes, or the sources of income farmers are considering in retirement.

FARMTRANSFERS is a collaborative effort around a common research instrument that assembles information on farmer succession and retirement planning, the speed at which management decisions are shared, with whom they are shared, and how quickly they are finally fully delegated to the successor(s) (Lobley, Baker and Whitehead, 2012). In 1991, researchers began using the *FARMTRANSFERS* questionnaire to ask farmers important questions about farm succession, retirement, and asset transfer. This survey has since been replicated in 10 countries and seven states in the United States and has been completed by over 15,600 farmers. The data collected provide a platform for international comparisons of the results and identifies widespread issues of succession plans. It also provides a basis for farmer educational needs around farm succession, retirement, and inheritance (Lobley, Baker and Whitehead, 2012). The survey asks questions about retirement plans: whether the farmer plans to fully retire, semi-retire, or never retire; sources of retirement income; and if the farmer plans to retire, where he or she will live in retirement.

Using this common survey design, Baker and Epley (2009) found more Iowa farmers describe their plans as never retiring than those with plans to fully retire. A *FARMTRASFERS* survey conducted in the four southwestern counties of Wisconsin with 589 responses (23% response rate), found that 73% of respondents plan to either never retire or to only semi-retire from farming (Kirkpatrick, 2006).

Foskey (2002) describes Australian farmer retirement patterns with three terms: *retirement in farming*, with the operator providing management, labor or both to the operation which is similar to semi-retirement; *retirement from farming* (full-retirement); or *retirement to farming.* Retirement *to* farming is a form of retirement described as a farm operator who enters into farming later in life after retiring from a full-time job, or, as the farm grows and becomes sufficient, or debt is reduced, the operator can afford to leave an off-farm occupation.

Efforts to study farmer retirement and succession trends are complicated by challenges of current data. One factor is the definition of a farm for Agriculture Census purposes. A farm is defined as a business that sold or normally has potential to sell $1,000 of agricultural products during the year. This low threshold may skew average-age data due to the many farmers retiring *to* farming and may be one factor in the increasing average age of farmers. Farmers who are retiring *to* farms may not be as dependent on farm income for their family living needs because of social security, pensions, or other retirement savings garnered from their previous occupation. For farms where the older generation retired *to* farming, the tie and desire to farm may not be instilled in a child to become the successor operator. Even if the retired *to* farming operator is willing to allow the land to move outside the family, the farm may not have the profit potential to entice a successor from outside the family. This type of farm has more potential of being a last generation farm, posing a greater risk of the land being converted from of agricultural production. The retiring *to* farming phenomena may drive land prices to extremely competitive levels. This can make land unaffordable for younger beginning farmers with little capital who seek farming as a primary occupation.

This sector of retiring *to* farming raises its own set of issues, but statistics also support the view that the traditional farmer's average age is increasing. According to the 2006 Iowa survey (Baker and Epley, 2009), the average age of retirement or semi-retirement for the respondents was 67 years, compared to 66 years for respondents in 2000. Respondents to the survey may base their intended retirement age on when they would be eligible for full social security retirement benefits, rather than on the basis of providing less labor or management to the operation. The increase in the average planned retirement age of farmers in Iowa between 2000 and 2006 supports this hypothesis because the eligibility age for full retirement benefits is gradually increasing, depending on birth year. The Social Security structure provides a disincentive for retiring early, regardless of occupation. Social Security participants can begin to receive retirement benefits as early as 62 years old, but benefits are reduced by approximately 30% of the full benefit if they retire at 62 rather than their full retirement age. In addition to receiving a reduced payment, benefit income is withheld if early retirement participants earn more than set income limits until participants reach full retirement age.

Where Will Farm Retirees Live?

Farms are one of the few businesses in which the family home and family memories are tied so closely together with the business. According to surveys in the United States (Baker and Epley, 2009; and Kirkpatrick, 2009) a majority of respondents (55% in Iowa and 60% in Wisconsin) who planned to retire do not plan to move from their current home. A farm operator's decision to remain in the current home can reduce housing expenses, since a retirement home need not be acquired. However, it can drastically limit the next generation's ability to fully manage the farm, if the successors have to live even a short distance away. The retiring generation must also consider its ability to relinquish control of the farm if it still lives there. The desire to remain in the family home must be balanced with the needs of the business. If retirement income is dependent on the business continuing, leaving the home may be a small price to pay for the farm to thrive and sustain multiple family living needs. If the retiring generation does plan to leave the farm home, the true costs of living off the farm must be calculated and factored into retirement income needs.

Retirement Income Sources

Social Security provides, on average, only about 13% of income for farmers who are receiving Social Security benefits (Mishra, Durst, and El-Osta, 2005). This small percentage of income derived from Social Security may be because the farm operators are still receiving a significant amount of income from farm operations, but it may also be attributed to the limited amount of self–employment tax the farmer paid over his working life. Farmers responding to the *FARMTRANSFERS* survey (Baker and Epley, 2009) indicated several sources for retirement income: Social Security was the most common, with income from the farm business, private retirement plans, sale of farm assets, and other investments also identified as sources. In 2011, U.S. farm households had an average net worth of $1,011,309. However, farm assets comprised, on average, a large percentage (76%) of that farm household wealth (USDA Economic Research Service, 2012). In many instances these farm assets are relatively illiquid and indivisible. Farmers with a majority of their total net worth in farm assets are more likely to use those assets as a source of retirement income either by receiving income from the intact business or by the sale or lease of the assets.

Obviously, retirement from farming is closely tied to decisions of farm succession. Survey respondents in a 2009 study of Wisconsin farmers who had recently transferred farm assets noted their top three goals in transfer planning were: long-term viability of the farm for the next generation, providing for the financial security for the older generation, and for keeping the farm or farmland in the family. These can be argued as fairly universal goals of farm families considering succession. If these are the top goals for a farm owner, then identifying and mentoring a competent successor *should* be a priority. Having a chosen successor makes it easier for the farmer to reduce his or her involvement, and may also influence the continued capital investment the operator is willing to make (Potter and Lobley, 1992). Potter and Lobley (1996) refer to this as the "successor effect." This continued investment can make the operation vastly more attractive to the successor. It can also tie the retirement income of the older generation to a successful transition of management to the next generation.

Conversely, the "retirement effect" can be found if a successor is not identified. Operators often slowly disengage from farming by eliminating livestock to reduce labor requirements but continue the cropping enterprises. Eventually, the farmer may opt to let the livestock facilities deteriorate, rent out the cropland, and continue living in the farmhouse in hopes the land will eventually transfer to his or her heirs at his or her death, in spite of the fact the heirs will never farm the land themselves (Potter and Lobley, 1992). This process may severely impact the older generation's retirement income potential, considering that farm business investments may be the only retirement assets. The only way to realize the older generation's return on investment is to continue farming or sell the farm outside the family at a fair market value, either as a working farm, recreational land, or for development. The other concern with timely identification of a successor is the infusion of Social Security income when the older generation reaches an age to receive benefits. The monthly income from Social Security and the addition of health care benefits through Medicare can provide just enough financial security to allow the older generation to be less reliant on a successful transition to the younger generation. Income from the Conservation Reserve Program can have a similar affect, but goes one step further by taking land completely out of production that might have otherwise been rented to a beginning farmer or a farmer expanding his or her operation.

Emotional Ties to Farming

Research and quantitative data will do little to persuade farmers to change their attitudes about farming as a lifestyle, their aversion to full retirement, or the desire for the farmland to remain family owned. When asked what they would miss when they retire or semi-retire, the most common responses are connected with lifestyle. Iowa, Wisconsin, and Australian farmers all noted the loss of an active lifestyle, open spaces, and the independence that farming allowed them to experience (Baker and Epley, 2009; Barclay, Foskey and Reeve, 2005; and Kirkpatrick, 2009), with one respondent from Wisconsin replying that he would miss *"….breathing"* because he'll be dead when he gives up farming, which is the embodiment of the "dying with your boots on" creed of many farmers worldwide.

Too many farmers allow their inability or unwillingness to recognize, analyze, and discuss the emotional aspects of retirement and succession to perpetually stall their planning. Farm operations that would be considered financially sound, well-managed businesses can slowly collapse and fail because the older generation is unable or unwilling to face the contradicting desires of seeing the next generation succeed yet retain the independence and self-identity farming provides. Recognizing the long-term goals in terms of management and asset transfer, retirement decisions, and income needs—and analyzing where these goals intersect and contradict—can provide a platform for consensus among the farming partners.

What can Policy Makers and Cooperative Extension Services Do?

The lack of retirement and succession planning cannot be "fixed" by purely technical advice or financial management education. The broader question of what do we want rural America to look like in the future and the potential impacts of a lack of retirement and succession planning must be addressed. If the lack of planning does hinder the future envisioned, then what can policy makers do to encourage farmers to consider retirement and invest in the management training of the next generation of farmers? Policy considerations could include:

- Providing tax incentives to owner farmers who rent or sell assets to beginning farmers. There are state examples of this (Iowa, Nebraska, and Wisconsin are just three) and policy makers could consider expanding these incentives to the federal level.
- Considering ways to mitigate the taxes in the first year(s) of retirement when farmers no longer have their usual farm expenses to offset taxable income. Depreciation expenses carried forward in their first year(s) of retirement may alleviate some resistance to retirement.
- Allowing farmers higher yearly maximum investment limits for tax deductible retirement instruments. Farmers have many incentives to invest in depreciable capital assets. Providing greater incentive and education on investing in retirement vehicles can help lessen the financial expectations that the farm assets have to be both business and retirement assets.
- Providing a Social Security benefit incentive to farmers retiring earlier than their full retirement age rather than the current disincentive, and coupling the in-

centive with a requirement that a next generation/beginning farmer takes over the farm operation's management.

While tax and other incentives may address the common barriers many farmers identify as reasons to delay retirement and succession planning, they do not address the emotional issues of loss of control, loss of identity, and facing their own mortality. Cooperative Extension educators can assist farmers and farm families by facilitating the discussion and process of farm succession planning. This process starts with the farm operators and successors identifying their values, vision, and goals surrounding retirement and farm succession. Instead of focusing only on financial analysis, the merits of various business entities or estate planning tools educators can assist the farming partners in developing a plan that involves phases of transition, especially phases of transitioning management and decision-making responsibilities. Farmers who are highly dependent on a thriving farm business for income in their later years should view their successor as their portfolio manager. With this in mind, the older generation should do everything it can to mentor the successor to ensure the success of the farm operation for both generations. At the same time, the older generation can be encouraged to explore new opportunities to fill time with meaningful work or endeavors to mitigate the feelings of identity loss. This facilitation role is very different from the traditional expert role Extension educators have played in the past; however, it is an effective way to assist farm operations with their retirement and succession plans.

Conclusions: Farmers' Decisions

Farmers' decisions to never retire or only semi-retire and the increasing number of people retiring *to* farming are impacting the next generation's ability to embark on a true career path of full-time farming. The timing of identifying a successor is critical for the business cycle of the farm. If the successor is identified, the older generation can be motivated to continue capital investments to assist the financial viability of the farm for the next generation. Continued investment into the farm business makes it imperative the next generation is mentored to successfully manage the farm. If a successor is not identified at the critical time, the older generation may slowly deplete the investments, and the farm may decline in value. Policies can be developed and programs piloted to mitigate risks to the older generation's financial stability. These may work to encourage an earlier exit from farming, but may not be incentive enough to entice a significant percentage of farmers to completely retire. The value placed on lifestyle quality, the sense of place and a sense of purpose is far greater than can be quantified by an early retirement benefit. A concerted educational effort to address the emotional issues must also be implemented. No retirement benefit or government policy can compete with the sense of knowing and working a piece of land, seeing it shaped by your labor and decisions, and being satisfied by a life well done. Leaving a legacy of a competent successor managing a sustainable farm for future generations should be considered the final chapter.

For More Information

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