Retired Farmer – An Elusive Concept

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Introduction

Retirement planning is essential to developing a sustainable family farm. Retiring farmers must answer the questions: 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. This paper will discuss the research on farmers' retirement patterns. It will also discuss how the US Census of Agriculture data may obscure true retirement patterns because of the USDA definition of a farm and the phenomena of retiring ***to*** farming in the U.S. It will present a summary of research about where retiring farmers plan to live, and their retirement income sources and how, in the context of retiring from farming and farm succession, this has an impact on true transition of management of the farm. Finally, the paper outlines the need to move farmers from discussing the tangible details of retirement planning and immediately dismissing the possibilities to discussing the lifestyle they might enjoy if they recognize and process the emotional reasons for their hesitation in planning for their retirement.

Increasing Age of Farmers and Retirement Plans

The US Agriculture Census and the Agricultural Resource Management Survey (ARMS) can give some insight on patterns by analyzing the average age of farmers over several years. Farmers are considerably older than the rest of the U.S. labor force. Over 25% of all farmers, and about half of all agricultural landlords are 65 or older, compared with only about 3% of the overall labor force. Older farm operators and landowners operate over one-third of all farm assets and are staying on the farm longer than previous generations (Mishra, Durst and El-Ostra 2005). The 2007 U.S. Census of Agriculture noted that the fastest growing group of farm

operators is those 65 years and older, with a 22% increase over the 2002 Ag Census data. The increasing average age of farmers seems to indicate that farmers are delaying retirement, but the data does not provide definitive answers for the increasing average age, retirement decisions or attitudes, or the sources of income farmers are considering in their retirement years.

Since 1991, researchers have been using the farmtransfers questionnaire to ask farmers important questions about farm succession, retirement and asset transfer. This survey has since been replicated in several countries and several states in the US. The surveys asked questions about retirement plans, whether the farmer planned to fully retire, semi-retire or never retire, sources of retirement income, and if they planned to retire, where they would live in their retirement. In a development of the questionnaire in 2006 Iowa researchers clarified the definitions of retirement categories provided to survey participants to more clearly delineate full retirement from semi-retirement and never retiring (Baker and Epley 2009).

The survey question of full, semi or never retiring was not connected to sources of retirement income, which would have complicated the definition. Questions about retirement financial resources were asked separately from labor and management issues. Baker and Epley (2009) found more farmers describe their plans as never retiring than those with plans to fully retire. A similar Wisconsin survey, conducted in the four southwestern counties with 589 responses (23% response rate), found that 73% of respondents from the Brucellosis Ring Test (BRT) list plan to either never retire or to only semi-retire from farming (Kirkpatrick 2006).

Baker and Epley (2009) compared the Iowa data to past studies in the U.S. and foreign countries and found that Iowans are more likely to either retire or semi-retire than farmers in other states.

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 this sector of farmers who are retiring ***to*** farming. Census data used must be scrutinized to clearly understand the differences between these sectors of farmers in the US. One factor in the US 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. With this low threshold US Ag Census definition in mind, many farmers are retiring ***to*** farming rather than from farming. This may be one factor in the increasing average age of farmers in the U.S. 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 familial, symbolic tie to the farmland may not be instilled in a child to become the successor. The children of the retired ***to*** farming operator may have no desire to farm, yet the operator may feel the farmland is the children's inheritance right and leave the land to his heirs. Even if the retired ***to*** farming operator is willing to allow the land to move outside the family, the farm may not be productive or profitable enough to entice a successor from outside the family. This increases this type of farm's potential for being a last generation farm. It may also put the land at greater risk for development or becoming exclusively recreational land. Younger beginning farmers who seek

farming as a primary occupation and as a primary income cannot compete with the retiring ***to*** farming phenomena, which may raise or sustain land prices to unaffordable levels for beginning farmers with little capital.

This sector of retiring ***to*** farmers raises its own set of issues and research questions, but statistics support the view that the traditional farmer sector's average age is increasing as well. Reasons for farmers to delay retirement and actively engage in commercial farming longer can be as varied as the number of crops and products grown. New production technologies to replace physical labor have allowed farmers to farm longer. Improved health and longer life are assumed to play a factor in delaying retirement. A Swedish longitudinal cohort study on farmers and rural non-farmers, Thelin and Holmberg (2010), concluded that both health and lifestyle factors have little effect on retirement age for farmers and that social, financial, or cultural factors have greater influence on farmer retirement.

According to the 2006 Iowa survey (Baker and Epley 2009), the average age of retirement or semi-retirement for the respondents is 67 years old, compared to 66 years for respondents from the 2000 Iowa survey. Australian, Japanese and United States farmers appear to plan to retire at an older age than Canadian, French or English farmers (Barclay 2006). U.S. farmers responding 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 farming operation. The slight 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. People born from 1943 – 1954 are eligible for full social security benefits at 66. Eligibility age increases two

months for each year after 1954 (66 years and two months), until 1959 (66 years and ten months). Those born 1960 and later must reach 67 to be eligible for full benefits.

In the US, 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 are penalized for taking Social Security benefits early. 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 the set income limits. When participants reach full retirement age the income limits are removed, but they will continue to receive reduced benefits.

Where Will Farm Retirees Live?

Most employees retiring from a career do not have to consider the decision of whether they will leave their home at the same time they retire from their jobs. Farms are one of the few businesses in which the family home and family memories are tied so closely together with the business. Operations with livestock enterprises are especially cognizant of the need for the primary livestock manager to be near the farmstead during farrowing, calving and lambing seasons. According to surveys in the US (Baker and Epley 2009, Kirkpatrick 2009) of those respondents who planned to retire, a majority of them (55% in Iowa and 60% in Wisconsin) do not plan to move from their current home. A farm operator's decision to remain in the current home can reduce their retirement income needs, since a retirement home need not be purchased, rented or built. However, it can drastically limit the next generation's ability to fully manage the farm, if they have to live even a short distance from the farm. The retiring generation must also consider their ability to truly relinquish control of the farm if they are living in the farmhouse, watching the daily activities and judging the successors' decisions. The desire to remain in the

family home is natural, and this natural desire must be balanced with the needs of the business to not only continue but to thrive for the next generation. If retirement income is dependent on the farm continuing, leaving the home may be a small price to pay for the business 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 accounts for more than half of the total income for about 60% of social security recipients. Social security is the sole source of income for about 20% of all recipients. In comparison, social security is on average only about 13% of income for farmers who are receiving benefits (Mishra, Durst and El-Ostra 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 amount of self –employment tax the farmer paid over his working life. Iowa farmers responding to the FARMTRANSFERS survey (Baker and Epley 2009) indicated several sources for retirement income. Social Security was the most common source identified (50% of respondents). The other responses were income from the farm (41%), income from a private retirement plan (37%) and income from other investments (29%). Sale of land, livestock, and other farm assets were among the lowest categories identified for Iowa respondents. In comparison, Australian farmers' most common retirement income will be the sale of farmland and other farm assets, reflecting a trend of farm land ownership as a retirement fund to be tapped when needed (Barclay 2006). Wisconsin respondents also indicated slightly more reliance on the sale of farm assets than Iowa respondents, with the three top sources expressed as a percentage of retirement income identified

as: 1. Income from sale of farm assets (38%); 2. Social Security (17%); 3. Income from the farm (15%) (Kirkpatrick 2009).

Government payments or farm programs can also be a source of retirement income. Hoppe (1996) suggests that the Conservation Reserve Program (CRP) could be considered a component of retirement income for farmers. Hoppe notes that approximately 18% of retired operators had land in CRP in 1993, compared to only 11% of all farmers. Farms with retired operators accounted for 26% of the CRP farm enrollments and 28% of the enrolled acreage.

Over seventy years ago, the process of retirement for the older generation began with the younger generation living with the older generation in the farmhouse. The older generation would transfer the labor first and then the management decisions. Finally, through gifting or inheritance the property would be transferred. This arrangement satisfied the need for the younger generation to begin their farming career, and provided the older generation a home and care in their older years. Many farms had three generations living under the same roof for several years. This arrangement had at least the possibility of matching the income potential of small family farms to the family living needs without the need for large expansions in operations, since multiple generations were living together. In the US and in many European countries, societal expectations and family needs have altered this arrangement almost to the point of extinction. The trend for the older generation to live independently from their adult children began in the early 1940s when the first Social Security payments were distributed. This additional income to the retirees provided a small but important financial resource allowing them to live separately from their children. By the 1960s, social security was so accepted that its effect on living patterns is rarely mentioned (Troll 1971). Age and health of the older generation are also factors,

but financial independence is an important factor, with even a modest increase in income greatly increasing the odds of the older generation living alone (Chevan and Korson 1972).

The expectation for separate households remains the trend in farm families today. The cost of living for both the older and younger generations puts greater financial expectations on the farm business. Unfortunately, many farm operators continue to make investment decisions as if the old pattern of multiple generations living under the same roof is the norm. Farm operators continue to re-invest farm profits back into the farm, rather than invest in off-farm retirement plans, even though many have tax incentives attached to them. This systematic re-investment back into the operation means many family farms control considerable wealth. In 2001, U.S. farm households had an average net worth of $545,869 compared to $395,500 for nonfarm households (Mishra et al. 2002). This physical capital can be classified into liquid and illiquid assets. These relatively illiquid farm assets are further complicated because they are, in many cases, indivisible and can be a large percentage, if not all, of the family wealth (Mishra, El-Osta and Shaik 2010).

Categorizing these indivisible, illiquid farm assets as retirement assets makes the need for identifying a successor, preferably a family member, a priority for many farm operators. Retirement from farming is closely tied to decisions of farm succession and transfer of the business assets. Uchiyama, Lobley, Errington and Yanagimura (2008) found that farmers in England and Canada who had identified a successor preferred semi-retirement than those in the US or Japan. Having a chosen successor makes it easier for the farmer to reduce his level of involvement. Having identified a successor may also influence the continued capital investment the operator is willing to infuse into the farm business (Potter and Lobley 1992). This continued capital investment can make the operation vastly more attractive to the successor. It also further

ties the retirement income of the older generation to a successful transition of management to the next generation. Conversely, if a related successor is not identified, and the operator places a high priority of keeping the farmland in the family, the operator is more likely to delay retirement indefinitely. In many cases, the operator must continue to farm to garner income from the assets. Eventually, as the farmer ages and his health diminishes, he may reduce the labor requirements by eliminating livestock but continuing the enterprises with more mechanization, such as grain crops or hay. 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 heirs at his 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 their farm business investments may be their only retirement assets. The only way to realize their 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. Relying on the farm assets for income and keeping ownership of these assets until death can pose risks to the inheritance plan. If the older generation becomes reliant on skilled nursing care, and social security, pension, and farm income do not cover the costs of this care, the farmer may be required to sell non-residential business assets to pay for this care. If family members are unable or unwilling to purchase the assets or pay for skilled care from their own resources, the dual goals of using the farm for retirement and keeping the land in the family are lost.

Emotional Ties to Farming – What Farmers Will and Won't Miss About Farming

Research can provide patterns and trends, identify retirement income sources and suggest government policies to encourage farmers to retire early and to transfer the productive assets to a

younger farmer. However, research findings will do little to persuade farmers to change their attitudes about farming as a lifestyle, retirement or inheritance of the farm.

When asked about what they would miss when they retire or semi-retire, the most common responses are connected with lifestyle, described in several different ways. 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 2006, Kirkpatrick 2009). Another element of loss mentioned in the Wisconsin study was the loss of control, with one farmer saying it would be hard to give up control. One respondent said 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.

Educational programs can be developed to help farmers organize and implement their retirement and succession plans. But these programs are assuming the farm operator has made the conscious decision to retire or at least semi-retire from farming. The inability to recognize, analyze and discuss the emotional aspects of retirement and succession can stall the process. 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 providing a legacy to his heirs yet retain the independence and lifestyle farming provides. Recognizing the long-term goals in terms of business succession, retirement decisions, income needs, and inheritance issues and analyzing where these goals intersect and contradict can provide a platform for deeper communication and understanding among the farming partners and off-farm heirs.

Conclusions

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. While U.S. Census data can be deceiving because of the low threshold definition of a farm, research data does support the proposition that the farming population is older than the work force in general. Low profit margins and the farm's inability to sustain multiple households are common reasons cited for delaying succession planning or ignoring the issue completely. Some studies show the lack of an identified successor is often a reason for delaying retirement. 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. However, these continued investments into the farm business may make the older generation more reliant on and vulnerable to the next generation's ability to successfully manage the family farm. If a successor is not identified at the critical time, the older generation may slowly deplete the investments, and the farm gradually declines in value from the perspective of the next generation. The other component 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 the older generation to be less reliant on a successful transition to the younger generation. Income from the CRP 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 operation. The older farmer can eliminate the livestock, greatly reducing labor requirements and physical injury risks, and continue to live in the farmhouse, with no need to consider other living arrangements until his health greatly diminishes. Policies can be

developed and programs piloted to mitigate risks to the older generation's financial stability. These may work to encourage a slightly 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. 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. For many farmers the farm staying in the family is the desired legacy, whether the family farms it is insignificant. This type of legacy can be accomplished through inheritance, not subject to a business succession, making many farm businesses "last generation" farms.

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