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Ag Decision Maker

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Challenges and opportunities to beef farm succession

By Lee Schulz, extension livestock economist, 515-294-3356, lschulz@iastate.edu

People – the producers, who make it happen, are the most important asset in Iowa's cattle industry. But they're aging. Almost twice as many cow-calf and feedlot producers are over 64 as are under 35.

Specifically, the average age of Iowa cow-calf and feedlot producers is 53.2 and 52.9 years, respectively. Twenty-five percent of Iowa cow-calf and 22% of Iowa cattle feedlot producers are over age 64. An additional 25% of cow-calf and 28% of feedlot producers are between 55 and 64.

Current demographics, including producer age and equity distribution, are skewed to older producers. That means a large share of Iowa's beef production assets will change hands over the next decade or two.

Public policy will influence how, and to whom, these assets will be transferred, which in turn will help shape beef cattle production for generations to come. This makes it crucial for policy makers, stakeholder groups and educators to explore and evaluate alternative policies to enable successful farm successions. Specifically, policies targeting environmental regulations, competition for land, capital availability, capital costs and land tax policy could help facilitate – or hinder – intergenerational transfers of assets in Iowa's beef cattle industry.

Few producers have succession plans in place

About half of the Iowa cow-calf producers and feedlot operators responding to a 2014 Iowa Beef Center survey expect to be raising cattle for 10 more years or less (Table 1). A significant number of producers with relatively short time horizons do not have a succession plan. Thirty-eight percent of the cow-calf producers and 39% of the feedlot operators who expect to be raising cattle for 10 more years or less do not have a succession plan in place. This is particularly alarming, as a realistic time frame for farm succession is often 10 to 15 years.

The survey also asked producers to indicate the degree to which different factors were perceived

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Handbook updates

For those of you subscribing to the handbook, the following updates are included.

Deductible Livestock Costs for Adjusting Income Tax Returns – B1-15 (1 page)

Farm Financial Statements – C3-56 (8 pages)

Please add these files to your handbook and remove the out-of-date material.

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IOWA STATE UNIVERSITY
Extension and Outreach

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Table 1. Succession planning by expected years to be raising beef cattle

	Cow-Calf		Feedlot	
Expect to raise cattle	<10 years	>10 years	<10 years	>10 years
	49%	51%	52%	48%
Type of succession plan:				
Transfer to next generation or secondary operator	40%	33%	57%	47%
Transfer to outside established or beginning producer	7%	0%	0%	2%
Sell cattle and use land for other purposes	15%	3%	4%	4%
No plan	38%	64%	39%	47%

Source: 2014 Iowa Beef Center surveys of Iowa cow-calf producers and feedlot operators.

as an obstacle or attraction for future generations entering cattle production. Cow-calf producers said that they view the rural lifestyle, self-employment, working with livestock and working with family as the biggest attractions (Figure 1). The biggest perceived obstacles for future generations among cow-calf producers were environmental regulations, land tax policy, and expansion of corn and soybean acres. Feedlot operators identified the same attractions as the cow-calf producers; however, the highest-ranking obstacles were mostly different, except environmental regulations, and included work hours as well as labor availability and costs.

Crop production synergies and challenges

Iowa ranks No.1 in production of corn and ethanol, which supplies distillers grains co-product for livestock feed. This beef cattle and corn production combination provides a unique synergistic system that can give Iowans competitive economic advantages.

However, this combination can also lead to challenges. Two are competition for land and available labor supply. For example, the average size of an Iowa cow-calf operation is 164 acres. The average size of an Iowa feedlot is 528 acres. These are smaller than the U.S. averages of 565 acres for cow-calf operations and 1,058 acres for cattle feedlots. Over the last 20 years, 1999 to 2018, Iowa pastureland asset value surged 356% and pastureland cash rent rose 74% according to USDA National Agricultural Statistics Service's land value and cash rent surveys of producers.

In 2017, 72% of Iowa cow-calf producers worked at least 1 day off the farm, while 54% worked 200 or more days off the farm. This was slightly lower for Iowa feedlot producers, with 49% working at least one day off the farm, while 29% worked greater than or equal to 200 days off the farm. Thirty-five percent of Iowa cow-calf producers reported farming as their primary occupation, 67% of Iowa feedlot producers listed farming as their primary occupation.

The need to supplement farm income from off-farm sources may put future beef cattle producers at a large disadvantage when it comes to recruiting new producers. Why? Cattle production systems are typically far from metropolitan areas, and therefore have fewer off-farm income opportunities nearby.

Iowa's beef cattle industry is an economic engine

Iowa has 17,863 cow-calf producers and 4,106 feedlot producers, according to the 2017 Census of Agriculture, using the breakdown by the North American Industry Classification System. Those people are owners and operators of 10,415 cow-calf operations and 2,325 cattle feedlots. Decisions these producers, and their potential successors, make will determine the future size and structure of the Iowa beef cattle industry.

Iowa is the fourth-largest cattle feeding state in the United States, marketing 1,813,000 head in 2018. Iowa is also the tenth-largest cow-calf state, with 950,000 beef cows as of Jan. 1, 2019. Iowa's $4.059 billion of cash receipts for cattle and calves in 2017 represent 15% of all Iowa agricultural cash receipts and 30% of all Iowa animal and animal product cash receipts. These cattle production figures alone represent significant economic activity, but they're a mere fraction of the total economic activity stimulated by the beef cattle industry. In addition to the direct economic effects and input purchases resulting from beef production, processing and

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input supply activities, income earned in these agriculturally-related components of the beef industry helps fuel the rest of the economy.

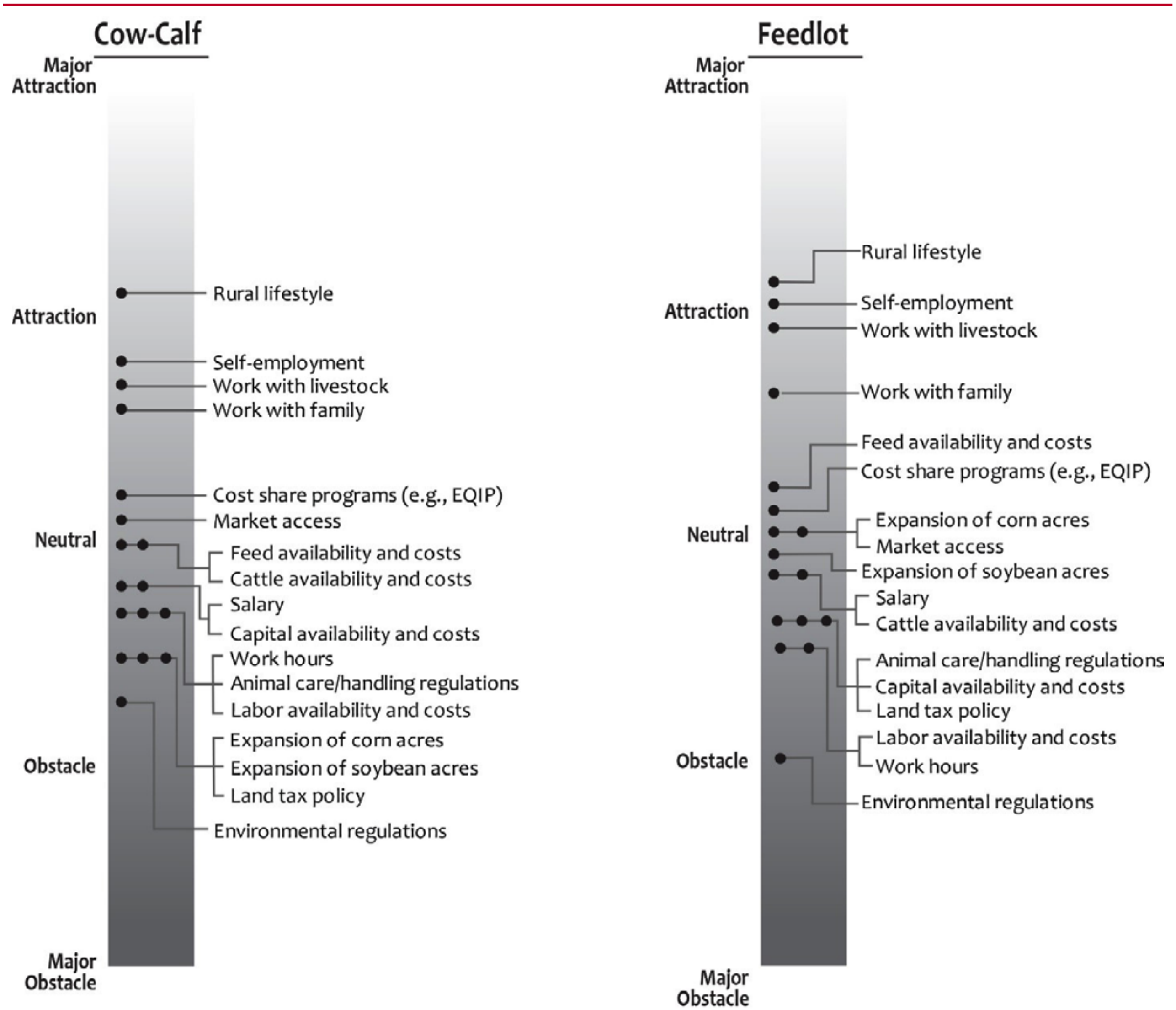
To learn more about "Succession Planning and Perceived Obstacles and Attractions for Future Generations Entering Beef Cattle Production" in Iowa, an article by Lee Schulz, Georgeanne Artz, and Patrick Gunn is available online, https://docs.lib.purdue.edu/jafe/vol1/iss1/1/.

Changes in Ag Census definitions

Demographic data from the 2017 Census of Agriculture are not fully comparable to 2012 and earlier census data due to terminology and definition changes. The 2012 Ag Census included data for the principal operator, which was one person per farm. Allowing only one principal operator did not reflect farms where multiple family members contribute equally to decisions for the farm operation. For the 2017 Ag Census, the questionnaire was changed to allow farmers and ranchers to designate multiple people per farm as principal producers. Subsequently, this changed how some data items are reported.

The 2012 Ag Census provided cattle and calf sales by age and primary occupation of principal operator. In 2012, older producers accounted for almost half of total Iowa cattle and calf

Figure 1. Perceived obstacles and attractions for future generations entering beef cattle production



Source: 2014 Iowa Beef Center surveys of Iowa cow-calf producers and feedlot operators.

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sales –15% of sales were accounted for by principal operators (farming and other occupations) age 65 and over, and an additional 31% of sales were accounted for by principal operators age 55 to 64. These data are not provided for 2017.

New and beginning producers is a new category for 2017. It includes producers operating on any operation for 10 years or less. They may be on farms with producers who are not beginning producers. Additionally, a young producer is defined as a producer 35 years of age or younger. Farms with a young producer and/or new and beginning producer account for roughly 20% of the market value of livestock, poultry and their products sold in Iowa. Three-fourths of those young and/or new and beginning producers are also principal operators. When any young and/or new and beginning producer is a principal operator, only about 12% of the market value of livestock, poultry and their products sold in Iowa come from those farms.

Both these 2012 and 2017 Ag Census statistics suggest older producers who hold most of the equity will need to be involved in facilitating the transition to the younger generation.

Farm bill meetings happening across Iowa

By Kelvin Leibold, 641-648-4850, kleibold@iastate.edu, farm management specialist; Ann Johanns, program specialist, 641-732-5574, aholste@iastate.edu; ISU Extension and Outreach

In order to help Iowans understand their options under the 2018 Farm Bill, Iowa State University Extension and Outreach is planning meetings across the state.

More than 50 informational meetings will be held, beginning Nov. 12 in Grinnell, with a focus on explaining the different farm bill titles and programs that pertain to each part of the state. The meeting series stretches through the winter for landowners and producers to attend now, or following harvest, at a location that is convenient for them.

The agenda is similar at all meetings, and will include ISU Extension and Outreach farm management specialists and family life specialists, and local Farm Service Agency representatives.

Producers should attend to gain a better understanding of the changes to these programs and determine the path that best fits their farm operation under the 2018 Farm Bill. This is a chance to hear the program specifics and get answers to any questions they may have from regional experts.

The 2018 Farm Bill allows producers to choose from the same crop price protection programs as found in the 2014 Farm Bill. However, unlike the previous bill, which limited their program selection for all five years, the new farm bill allows producers to make a two-year decision by March 15, 2020, and also to change this selection beginning in 2021.

One intial step under the 2018 Farm Bill is the opportunity to update farm yields used under the PLC program. The Agriculture Improvement Act of 2018 (2018 Farm Bill) allows farmland owners and operators the opportunity to update farm PLC yields starting in 2020 for payment years 2020 through 2023. As producers may determine a different program option in later years of the farm bill, updating the yields now may prove beneficial. The choice to update yields is one that owners and operators should consider closely. The PLC yield for each covered commodity will only update if the new calculation results in a higher yield. Form CCC-867 must be signed with the FSA offices to complete the process. See Decision Tool A1-35 to estimate the corn or soybean PLC yields for an Iowa farm, PLC Yield Update Tool: Farm Bill 2018, www.extension.iastate.edu/agdm/crops/xls/a1-35plcyieldupdate.xlsx.

The basic choices for programs are Price Loss Coverage and Agriculture Risk Coverage (at the individual and county levels). A producer's choice will depend on their annual national cash price expectation, and the farm or county yields where the farm is located.

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The goal of the farm bill meetings is to give an overview of the things that are included in the 2018 Farm Bill and which of the three roads a producer might wish to go down.

Farmers in general are entering this farm bill with more financial stress and less operating capital than in 2014, when commodity prices were still high.

The financial stress has the potential to impact the future of the farm, and the health of the operator.

The extension family life specialist at each meeting will present "Stress on the Farm: Strategies to Help Each Other," a 40-minute scenario-based suicide prevention training that reviews the risk factors and warning signs of suicide.

While the farm bill is only one layer of risk protection, its programs are especially important this year. It's more important now than ever that one tries to manage risk by understanding what these farm programs might do for them.

A complete listing of farm bill meetings is available on the Ag Decision Maker Meetings website, www.extension.iastate.edu/agdm/info/meetings.html, as well as the ISU Extension and Outreach statewide calendar, www.extension.iastate.edu/calendar.

More information on the farm bill can be found on the Ag Decision Maker Farm Bill page, www.extension.iastate.edu/agdm/info/farmbill.html.

Online crop marketing course launched Nov. 10

By Steve Johnson, farm management specialist, 515-957-5790, sdjohns@iastate.edu, ISU Extension and Outreach

For the second consecutive year, Iowa State University Extension and Outreach will offer producers an online marketing opportunity that allows them to train and complete quizzes at their own pace.

The "Online Crop Marketing Course" offers a non-credit professional certificate, intended for row crop farming managers or those who simply want to learn more about marketing corn and soybeans.

Fourteen sessions and 13 quizzes were developed with input by Chad Hart, associate professor in economics and extension grain markets specialist with Iowa State University; Steve Johnson, farm management specialist with ISU Extension and Outreach; and Ed Kordick, farmer education program manager with Iowa Farm Bureau.

The sessions allow producers to explore futures price and basis movements, marketing tools and grain contracts that can help create a successful marketing plan. Users can review video presentations, learning activities and take educational quizzes.

A special emphasis is given to comprehensive crop market planning and price risk management.

The course is self-paced, with participants completing the content in an average of four weeks, after registration.

Sessions include futures prices, marketing tools and understanding grain contracts.

The online format is appealing because producers can complete it at their own pace, and from their own home – whether that's in Iowa or from another state.For the self-directed learner, they can decide how quickly they want to go through the material, without having to attend a workshop or seminar.

The course opens Nov. 10, and users can progress through the course at their own convenience. All quizzes must be completed successfully by March 15, 2020, to receive a professional certificate.

The registration cost is $200 and can be done online at www.agonline.iastate.edu/noncredit/crop-marketing.

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Internet Updates

The following Information Files and Decision Tool have been updated on www.extension.iastate.edu/agdm.

Iowa Fruit and Vegetable Production Budgets – A1-17 (20 pages)

2018 Farm Bill: PLC Payment Yield Update – A1-35 (1 page)

PLC Yield Update Tool: Farm Bill 2018 – A1-35 (Decision Tool)

Current Profitability

The following tools have been updated on www.extension.iastate.edu/agdm/info/outlook.html.

Corn Profitability – A1-85

Soybean Profitability – A1-86

Iowa Cash Corn and Soybean Prices – A2-11

Season Average Price Calculator – A2-15

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15