Farm families face challenges related to retirement planning and implementation similar to other small businesses. This document addresses two primary challenges. They are the visualization of a retirement lifestyle and confidence in funding that lifestyle. Fear of a retirement with no interests outside of farming or a simple lack of those interests may be a primary motivator for some operators to use a phased retirement approach.

Farmers are uniquely situated to implement subtle variations of retirement allowing for individualized alternatives. There isn’t a “turning in the keys” moment. Changes in enterprises, increased use of off farm labor sources, custom operations, custom farming, crop share and cash rent leasing of land allow for a transition from 100 percent of operations and management being provided by the farm family to simple ownership of the limiting resource in agriculture – land.

Visualization
The identity of a farmer is often closely tied to their occupation. This may be due to several factors including the percentage of time devoted to operation and management of the operation, the high level of interaction between the farm business and family activities. The length of time engaged in the business is another dominant factor for operators who were raised on a farm and became operators at a young age.

A first step in retirement planning is to visualize what retirement will be. An exercise particularly useful is to draw a picture of what your retirement fantasy would be. Few people are gifted artists, but all of us can draw basic sketches. Starting with a blank sheet of paper, make a sketch of what you want to be doing in retirement without financial, geographical, health or other limitations.

A next step is to start with another blank sheet of paper and write the words you want to use to describe your retirement. In a nearby column write the words you do not want to be used to describe your retirement. For some, retirement is viewed as a time of opportunity, and for others it’s a time of fear and uncertainty. This exercise can illustrate the positive and negative expectations an individual has regarding that phase of life.

To continue with the written activity, write a paragraph about the things you want to do or perform in retirement. Some of those things may have shown up in your picture of your retirement fantasy. The next paragraph will be the things you want to be or exist as in retirement. Are there different roles you would like to assume in community or faith organizations? Is this a time to provide leadership or council to groups that you felt unable to provide due to time constraints earlier in your career? A third paragraph will be the things you want to have, possess, own or hold in retirement. Are there things that you feel you have been working to acquire? Are the things tangible like property, or are they intangible like recognition in a community? A fourth paragraph is the things you want to contribute, give or help to bring about in retirement. That may be financial or time related. It could be political or social change related. The four paragraphs above can help to provide the
positive expectations regarding the retirement phase of an individual's life.

To be practical, the next step is to outline the things you need to be doing now to make your future years' dreams a reality. This is where most people can provide a story about a friend, family member or member of the community who didn’t prepare for retirement. The story usually follows a narrative of a person who was convinced they needed to retire, had no outside interests, and left their life's occupation to spend a short time “doing nothing” and died a premature death. The default phased retirement described in the opening paragraph may be the solution for many farm operators. There are others who due to outside interests or goals of bringing in family or non-family members to continue their farm as a viable business choose to engage in retirement planning. While there's mental work necessary to prepare, there's also financial groundwork to do.

Costs of Retirement for Farm Families

Farm families may be perceived as having a lower cost of living than non-farm families. There are some family living costs that may bear this out. The farm home may be mortgaged through a land note that is paid by the farm business. Rent or purchase of a new home needs to be built into the budget if the farm family plans to purchase a second home in a different climate or move off the farm in retirement. If home utilities expenses were heavily mingled with farm utility expenses, then making certain that they are accurately estimated could be a challenge.

Health insurance might have been covered by the farm business. Retirement healthcare costs are only partially borne at no cost by Medicare. The costs of Medicare components and supplemental insurance would need to go into budgets as the farm family transitions to retirement healthcare needs. Long Term Care Insurance is a product that will need to be carefully considered based on its capacity to offset what may be a major cost for a family.

A primary consideration of farm families when calculating the costs of retirement is to recognize that a simple monthly or annual ballpark estimate of costs of living allocated across a 25-30 year period is too simplistic. Months and years in retirement are not equally active, healthy or opportunity filled. R.C. Atchley outlined six stages of retirement; pre-retirement, retirement (honeymoon, immediate retirement routine or rest and relaxation), disenchantment, reorientation, retirement routine and termination of retirement.

Coming up with a monthly cost of living is a start. A second step is to budget the costs that are not monthly like trips, workshops and the other things developed in your retirement fantasy. A third step is allocating those costs across different stages of retirement. For some this may result in financial gaps. As you attempt to fill in those gaps, consider the variations of income production from different sources. Some streams, like Social Security, have incentives to delay the beginning of the income. Others, like withdrawals from a 401K have penalties related to early withdrawal. Then there are assets that can result in rental income like land, while others like stocks, have valuation risk which may be unwelcome in retirement.

One area that is difficult to estimate is the impact that inflation will have on retirement living expenses and retirement incomes. Some spreadsheets take this into consideration. As life expectancies have increased the impact of inflation has been greater.
Financial Preparation for Retirement
Just as in the phased retirement default for operations with physical limitations and technological complications driving increased reliance on outside sources of labor and management there is a default financial preparation built into many farm operations. Farming is a capital intensive business. For operations that have purchased land and equipment, there are financial returns expected as land is leased or sold and equipment is sold. Depreciation recapture and capital gains taxes can act to diminish the returns from outright sale of assets to fund retirement. Returns from the leasing of farmland may be a primary expected source of retirement income.

As business owners, farmers have access to the tax-favored Simplified Employee Pension (SEP), Savings Incentive Match Plan for Employees (SIMPLE) and Qualified Plans. The value of those vehicles depends heavily on profitability of the operation and somewhat on the age or time to the retirement phase of the operator. Tax laws are subject to change, and this document is meant to provide an exposure to tools known to exist at the printing of the document. IRS Publication 560 (http://www.irs.gov/pub/irs-pdf/p560.pdf) provides an explanation of the plans. Each farm operation will have a different level of ability to access the tools at any given time.

Individuals can use Roth Individual Retirement Accounts (IRA), Deductible and Traditional IRAs or non-deductible Traditional IRAs. Each vehicle has a unique combination of the treatment of contributions and earnings, eligibility, limits on contribution, distribution requirements and treatment of those distributions.

There are benefits associated with ownership of equity, bond or other investment instruments outside of tax-favored structures. The primary benefit is liquidity. Farming, Investment Planning (http://www.extension.iastate.edu/Publications/PM1167i.pdf) is a good starter source of information about the tax treatment of off-farm investments. The online course Investing for Farm Families (http://www.extension.org/pages/23204/investing-for-farm-families) provides additional resources to compare on and off farm investments.

Social Security is another source of retirement income that requires preparation by farm families. For tax purposes taxable income may have been minimized. That can have a significant and negative impact on social security benefits. A good starter source of information on issues farmers should consider about social security is “Farming: Social Security Issues” (http://www.extension.iastate.edu/Publications/PM1167h.pdf).

Additional Resources
Continuity Theory
Retirement Planning – Purdue
http://sharepoint.agriculture.purdue.edu/ces/farmriskmgmt/default.aspx
Retirement Estimator - Purdue
http://www.extension.purdue.edu/farmretirement/
Later Life Farming
http://laterlifefarming.rutgers.edu/
University of Vermont
http://www.uvm.edu/farmtransfer/?Page=ttfretirement.html&SM=ttfsubmenu.html
Life expectancy tables
http://www.ssa.gov/OACT/STATS/table4c6.html
Social Security
http://www.ssa.gov/
Evaluating Your Estate Plan: Retirement Planning for Farm Families

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