## Retirement Savings Challenges for Rural Americans

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>
Acknowledgements

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• JC Hobbs  
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• Cheryl DeVuyst  
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Takeaways

• The deck is stacked against rural households when it comes to savings opportunities.

• Farm households are wealthier than average, but there’s a catch.

• The retirement savings challenges of rural households and farm households are distinct, but intertwined.
The deck is stacked against rural households when it comes to savings opportunities.
Retirement account balances, households below U.S. median income

<table>
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<tr>
<th>Metropolitan</th>
<th>Rural</th>
<th>Percentage Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>$42,370.32</td>
<td>$27,227.80</td>
<td>-35.7%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, Survey of Income and Program Participation, 2014
Data compiled by Diane Oakley
Rural and urban age distribution

For more information see <www.census.gov/programs-surveys/acs/>.
Rural and urban workforce participation

For more information see <www.census.gov/programs-surveys/acs/>.
Rural and urban education attainment

For more information see <www.census.gov/programs-surveys/acs/>,
Rural-urban median earnings for earners age 25+ by educational attainment, 2015

- Graduate or professional degree: Urban $70,146, Rural $51,996
- Bachelor's degree: Urban $51,564, Rural $41,030
- Some college or associate's degree: Urban $35,247, Rural $30,969
- High school diploma or equivalent: Urban $29,415, Rural $27,327
- Less than a high school diploma: Urban $21,332, Rural $21,235

Notes: Educational attainment for adults age 25 and older; 2015 metropolitan area definitions from the Office of Management and Budget.
Urban and rural median incomes

Source: U.S. Census Bureau American Community Survey, 2016

Urban: $60,655
Rural: $62,291; +2.7%

Urban: $51,266
Rural: $55,704; +8.7%

Urban: $58,545
Rural: $56,061; -4.2%

Urban: $50,989
Rural: $46,891; -8.0%
Rural and urban uninsured and poverty rates

Poverty rate

Uninsured rate
Farm households are wealthier than average, but there's a catch.
Participation in retirement savings accounts

U.S. households: 60%
Farm households: 40%

Source: Mishra and Chang, JARE 2011
Distribution of farm households by measures of economic well-being, 2016

Note: Income and wealth levels for farm households are compared to the median levels of income and wealth of all U.S. households.
Farm profit margins

Farms by operating profit margin (OPM) and farm type, 2016

Percent of farms in each group

- Retirement
- Off-farm occupation
- Low-sales
- Moderate-sales
- Midsize
- Large
- Very large
- Nonfamily farms
- All farms

OPM

- Red zone: High risk level
- Yellow zone: Medium risk level
- Green zone: Low risk level
- Ratio not calculated

Source: USDA-ERS, “America’s Diverse Family Farms”
Median income for households operating a farm business compared with U.S. households with a self-employed head, 1996-2016

Note: Household income is estimated only for households operating family farms. Farm businesses are defined as farms with gross cash farm income over $350,000 in 2016 dollars, or farms where the principal operator lists farming as the primary occupation.


Data as of November 29, 2017.
$1,270,000

Average U.S. farm net worth

Source: USDA ARMS data
**Farm sector assets, inflation adjusted, 1970-2018F**

$ billion (2018)

Note: F = forecast. The GDP chain-type price index is used to convert the nominal (current-dollar) statistics to real (inflation adjusted) amounts (2018=100).

# The Farm Balance Sheet

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Operating&quot; assets</td>
<td>(None)</td>
</tr>
<tr>
<td>Breeding livestock</td>
<td>$0</td>
</tr>
<tr>
<td>Equipment</td>
<td>$500,000</td>
</tr>
<tr>
<td>Total &quot;operating&quot; assets</td>
<td>$500,000</td>
</tr>
<tr>
<td>Buildings</td>
<td>$100,000</td>
</tr>
<tr>
<td>Land</td>
<td>$2,700,000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$3,300,000</td>
</tr>
</tbody>
</table>

Owners’ Equity $3,300,000

Liabilities + OE $3,300,000

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*Note: The above table represents a simplified balance sheet for a farm.*
Why don’t they just sell the farm?

$301,222 average deficiency

$95,566 average deficiency
Why don’t they just sell the farm?

$113,400 average deficiency
Fine, just lease it out

<table>
<thead>
<tr>
<th>Land Type</th>
<th>Effective rental rate per acre</th>
<th>Acres needed</th>
<th>Land value per acre</th>
<th>Land value needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iowa cropland</td>
<td>$231.80</td>
<td>254.70</td>
<td>$7,543</td>
<td>$1,921,187.13</td>
</tr>
<tr>
<td>Oklahoma cropland</td>
<td>$37.25</td>
<td>1,584.96</td>
<td>$2,200</td>
<td>$3,486,913.92</td>
</tr>
<tr>
<td>Oklahoma pastureland</td>
<td>$23.32</td>
<td>2,531.42</td>
<td>$2,200</td>
<td>$5,569,119.95</td>
</tr>
</tbody>
</table>

Source: OSU, 2017 and ISU, 2017
The tax landscape for farm transfers

• Favors transfers at death
• Capital gains treatment for sale of appreciated assets
  – Installment sale recognition
• Depreciation recapture on depreciated assets
• Ordinary income tax on leases + self-employment tax on share leases
The retirement savings challenges of rural citizens and farmers are distinct, but intertwined.
Employment in rural counties

Figure 1. Percent Employed by Type of Industry: Completely Rural Counties
(Civilian labor force, 16 years and over)

- Educational services, and health care and social assistance: 22.3%
- Manufacturing: 12.1%
- Retail trade: 10.9%
- Agriculture, forestry, fishing, hunting, and mining: 9.6%
- Construction: 8.4%
- Arts, entertainment, and recreation, and accommodation and food services: 7.3%
- Public administration including military: 5.9%
- Transportation and warehousing and utilities: 5.8%
- Professional scientific management administrative and waste management services: 5.5%
- Other services, except public administration: 4.6%
- Finance and insurance, real estate, rental and leasing: 4.2%
- Wholesale trade: 2.3%
- Information: 1.3%

Source: U.S. Census Bureau, American Community Survey 2011-2015 5-Year estimates. For information on the ACS, see www.census.gov/programs-surveys/acs/
Sources of off-farm income for farm operator households, 2016

Average off-farm income of all farm households
$93,187

Wage and salary income, operators 35%
Wage and salary income, spouses and others 23%
Nonfarm business income 12%
Other nonfarm income 7%
Interest and dividends 5%
Transfer income 18%

Note: Other nonfarm income includes gifts, payment for nonbusiness services, or miscellaneous income such as gambling winnings, financial payments, rebates, etc.
Source of health insurance coverage, 2015

Note: Individuals may have more than one source of health insurance.
So what do we do about it?
Rural development matters

- Opportunities to save independent of, and/or portable among employers
- Infrastructure
  - Transportation
  - Water
  - Telecom
- Education
- Banking access
- Healthcare
Farm transitions matter

• Facilitate lifetime transfers (win/win)
• Installment sale recognition of depreciation recapture
• Carry forward recognition of gains/recapture from lump-sum sales
• Allow farmers to ”superfund” IRAs or create farmer retirement accounts with sale proceeds
• Eliminate SE tax on rental income (but educate on importance of SE/SS link)

Source: van der Hoeven,
One last thing on retirement for farmers and rural areas

- Retirement is hard
- Farming is hard
- 5x the national average
- 2x the military average
Takeaways

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Retired Farmer – An Elusive Concept

Joy Kirkpatrick

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

http://agecon.okstate.edu/farmtransitions
THANKS!

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