Financial Planning for Farm Families: Two New Resources for Financial Educators

Barbara O'Neill, Rutgers University
Stephen Komar, Rutgers University
Robin Brumfield, Rutgers University
Robert Mickel, Rutgers University
Nancy Porter, Clemson University
Debb Pankow, North Dakota State University
Jane Schuchardt, National Institute of Food and Agriculture, USDA

This ACCI Showcase Session described two new online financial education programs developed especially for farm families. Farmers are a unique target audience for financial education because their wealth is often tied up in their land instead of in employment-based tax-deferred retirement savings accounts (e.g., 401(k) and 403(b) plans) and other investments. If some or all of their land is subsequently sold to a developer or another farmer, some of the capital assets are sold, or their development rights are sold to a farmland preservation program, farmers need to make wise investment decisions so the proceeds of their sale last throughout their lifetime. Further, in the case where substantial assets are needed for retirement or long-term care, land and other farm or family assets can be a secured asset for borrowing, assuming cash flow from the farm operation is adequate to service the debt. Thus, knowledge of available investment products and their characteristics, as well as investment risks in general, the benefits of tax-deferred investing and diversification, potential sources of retirement income, and types and indicators of investment fraud are critical to farmers' financial security in later life.

According to the 2007 Census of Agriculture, the average age of farm operators increased from 55.3 in 2002 to 57.1 in 2007. The number of farm operators 75 years and older grew by 20% from 2002, while the number of operators under 25 years of age decreased 30% (U.S. Department of Agriculture, 2009). Improved health and longevity, combined with technological advances in farming equipment, enable many farmers to continue to perform the physical tasks necessary to operate a farm much longer than was true for previous generations. Farming is also becoming popular as a part-time retirement activity. Additionally, many farm operators and/or their spouses receive off-farm income that helps supplement farm-related income and provides access to employer benefits.

This Showcase Session discussed the development, content, and format of *Investing for Farm Families* (see http://www.extension.org/pages/Investing_for_Farm_Families), a basic investing home study course for farm households, and *Later Life Farming* (see http://laterlifefarming.rutgers.edu/), a course focused on retirement and succession planning. *Investing for Farm Families* was informed by a professional market analysis with quantitative and qualitative data collected about farm families in 2008, including their investment attitudes and practices and learning preferences. The course was created by the online investment education (OIE) project team of eXtension (see www.extension.org) with funding from the FINRA Investor Education Foundation.

Investing for Farm Families (IFF) uses Moodle courseware and consists of an introduction and 8 lessons, 11 supplemental units, and 15 exercises (activities) that enable learners to personally apply course information. Topics of the eight IFF lessons include: financial record-keeping, investment pre-requisites, finding money to invest, asset allocation (including farm assets), investment products and agriculture oriented alternatives, evaluating financial service providers and information sources, and retirement and succession planning. The course also includes audio clips by three characters who voice concerns and challenges faced by farmers.

Later Life Farming: Creating a Retirement Paycheck is an online course developed to help farm families achieve financial security in later life whether they choose to stop working or not. Like IFF, it contains a number of links for users to perform personal financial analyses. Informed by two 2008 focus groups with New Jersey farm families, including their financial concerns, thoughts about retirement, and learning preferences, *Later Life Farming* (LLF) consists of 10 modules and lists of action steps and references. It contains both original content and links to retirement planning materials for farmers developed by a number of land-grant universities and non-profit and government agencies (e.g., *Who Will Get Grandpa's Farm?* from Purdue University).

Each of the ten LLF modules contains several sections with short content summaries and links to activities that enable learners to personally apply course information. Titles of the ten modules are: Creating a Retirement "Paycheck", Farming in Later Life, Where am I Financially?, How Much Do I Need to Save?, Sources of Retirement Income, Investing and Investment Diversification, Making Your Money Last, Farm Transfer Decisions, Regulation and Tax Issues, and Getting Help.

The *Investing for Farm Families* and *Later Life Farming* online courses are cross-linked to each other. They were developed simultaneously and there were many similarities in the research findings that informed each program. While the basics of investing and retirement planning are the same for everyone, the contexts in which these principles (e.g., asset allocation, dollar-cost averaging, and diversification) are understood and applied are significantly different for farmers. For example, many farmers receive income in infrequent large sums rather than regularly-scheduled paychecks and have asset allocations heavily weighted toward farm business assets. This reality was addressed in the content of each course.

Research for both projects confirmed that most farmers prefer investing in land and other farm-related assets instead of a portfolio of securities, which is the primary wealth-building tool for salaried employees. In addition, farmers' small business "career" – caring for and earning a living from the land – often is more than a job; it is a lifestyle. So much so that more than three-quarters of respondents to the study that informed *Investing for Farm Families* did not expect to stop farming in later life as much as reduce their work hours or the size of their operation. Working well into later life is much easier for farmers to do than others because they often live where they work. Thus, "retirement," in the traditional sense (i.e., stopping work) is not an overriding financial objective.

The workshop began with a brief overview of recent research about financial characteristics of farm families from Census data. Findings from the research conducted to inform the *Investing for Farm Families* and *Later Life Farming* courses were also presented, followed by a description of the content of each course. Both courses are presently using online evaluations to determine their impact on the target audience and evaluation, as well as program marketing, methods were described.

Following are key research findings for financial educators about farm household characteristics:

- ♦ Upward trends in prices for farmland and stock market volatility and downturns tend to reinforce farmers' allegiance to land as an investment over stocks. The historical propensity of farmers to invest in farmland was reinforced during the 2008-2009 economic crisis and bear market. This is the environment into which both IFF and LLF were introduced. A comparison of the historical performance of alternative investments (e.g., stocks) and farmland and the benefits of portfolio diversification needs to be addressed in financial education programs.

- ♦ Farm households have an emotional attachment to land, their primary investment, which can lead to an over-weighting of this asset class and limited diversification. Programs need to be tailored to this perspective. For example, tools that integrate farm accounts with personal accounts for planning purposes should be part of investment education for farm households. Specially designed financial worksheets can provide a comprehensive view of household net worth with farm and personal assets combined.

- ♦ Diversification and risk management are important topics for farm families to understand because of their expressed preference for investing in what is familiar to them, specifically farm operations and farmland. Diversification principles are fundamentally the same for all investors, but a course for farm households needs to account for concentration of assets in farmland and many farmers' unwillingness to divest of land.

- ♦ Given farmers' strong propensity for work well into later life, customized retirement asset withdrawal strategies are needed. For example, farm households might elect to withdraw less while they are still working (e.g., in their 60s and 70s) and then take more money out of savings later in life when they are physically unable to work and/or sell or transfer farm assets (e.g., in their 80s and 90s).

- ♦ In formative research conducted for both projects, Cooperative Extension agents ranked high as trusted promoters of financial education programs for farm households. This bodes well for future marketing efforts as it is always easier to "sell" a product to an existing customer than to a new one.

Reference

U.S. Department of Agriculture (2009). *2007 Census of Agriculture-demographics.* Washington, DC: U.S.Department of Agriculture. Retrieved February 5, 2009, from http://www.agcensus.usda.gov/Publications/2007/OnlineHighlights/FactSheets/demographics.pdf.