

LIFETIME INCOME CRUCIAL TO FARMERS' RETIREMENT SECURITY



AMERICAN CORN GROWERS ASSOCIATION

A Joint Issue Brief by

AMERICANS FOR SECURE RETIREMENT

INTRODUCTION

Farm and ranch operators and their workers (“farmers”) face significant and unique obstacles in planning and providing for their retirement. They are less likely to be covered by traditional pensions, which make income payments for life, as well as other employer-sponsored retirement plans, as compared to workers in general. Extreme variability in farm income – due to fluctuations in commodity prices, weather, and macroeconomic policies, among other things – also makes it difficult for farmers to plan and save for retirement effectively.

For these reasons, many farmers today suffer the consequences of living long lives without adequate retirement income. Farm wives are particularly vulnerable to declining standards of living in retirement, because women tend to outlive men. Many have experienced this significant decline and a large number live only on monthly Social Security payments.¹

Farmers’ diminished independence and income ultimately affect the economic vitality of their communities, many of them some of the poorest in the nation, and strain already under-funded local governments. Indeed, the greatest concentrations of the elderly poor are in rural America. Farmers, and their families and communities, would benefit greatly from having better access to retirement vehicles, such as annuities, that make it easier to convert and manage their farm assets and personal savings so they last a lifetime.

As the Bush Administration and Congress consider sweeping changes to the nation’s retirement systems, it is imperative to the nation’s farm and ranch families that they address all of the elements of retirement security. For the nation’s rural and agricultural communities, retirement security goes far beyond addressing Social Security or pension reform – true retirement security will only come when we address both the savings accumulation side of the equation and the management of savings that would help individuals secure retirement income that lasts a lifetime.

It is a moral imperative to make sure farmers have the ability to have a secure retirement.

¹ “Rural Population and Migration: Rural Elderly,” Economic Research Service, USDA, 2002.

The Retirement Security for Life Act would help lay the foundation for retirement security – first, by drawing attention to the risk of outliving personal savings, and second, by encouraging farmers to choose annuities that make regular, guaranteed payments for life.

Without addressing the latter, groups like farmers who don't have as many options for generating regular retirement income will be left out in the cold. Retirement reform must include supporting policies that make annuities, the only retirement vehicle that provides a steady stream of income for life, more accessible. The *Retirement Security for Life Act*, legislation recently introduced in the House and Senate that would create a tax incentive for annuities that make regular payments for life, is an important first step toward reaching this goal.²

Farmers represent the best of America. Their commitment to cultivating our land through hard work and dedication not only feeds, clothes, shelters and helps fuel our country, but supports an important part of our economy. It is a moral imperative to make sure farmers have the ability to have a secure retirement. It also makes for good public policy as the inability of retired farmers to fend for themselves will have an impact on the budgets of local communities and the federal government.

FARMERS FACE AN INSECURE RETIREMENT

For too many farmers, there is little that is golden about their Golden Years. The average farmer faces very tough and unique obstacles to having a comfortable standard of living throughout his or her retirement. With the average life expectancy increases, retired farmers are often faced with making their savings and investments fund their housing, medical needs and way of life for 20 to 30 years beyond the age of 65.

www.paycheckforlife.org

² H.R.819, S. 381

TABLE 1: Facts About Farmers

PENSION COVERAGE		
	AGRICULTURAL WORKERS	ALL WORKERS
% who work for employer who sponsors retirement plan	29.9%	59.5%
% who participate in retirement plan	23.6%	48.2%

FARM OPERATOR HOUSEHOLDS	
% of operators over age 55	50.8%
% over age 64	27.6%
% increase in nonfarm assets 1993 – 1999	300%
% of nonfarm assets invested in IRA, Keogh, 401(k) and other retirement accounts	26%
income of <i>retirement</i> farm operators relative to U.S. average	74.1%
income of operators 65 years or older relative to U.S. average	72.3%

Source: Employee Benefit Research Institute; Economic Research Service, U.S. Department of Agriculture

Farm wives are especially at risk to experience a declining standard of living in retirement.

Various factors contribute specifically to farmers' retirement insecurity:

1 Farmers are less likely to participate in employer-sponsored retirement plans.

Only 30 percent of the agricultural workers in the United States work for an employer that sponsors some form of retirement plan, either a traditional pension, which makes regular income payments for life (i.e., a defined benefit plan), or a defined contribution plan such as a 401(k) plan, or both. *Incredibly, that is half as much as the percentage for all workers.* Similarly, fewer than a quarter (23.6 percent) of all farm workers participate in a retirement plan – *again, half as much as the percentage for all workers* (table 1). This means that for a majority of farmers, it is up to individuals to plan and save for retirement and then manage these savings so they provide an adequate standard of living for the rest of their lives. Most are self-employed, and operate or work for farms that are basically small businesses, which generally don't offer traditional pensions (or, for that matter, defined contribution plans).³ Other than Social Security, which today on average replaces only about 42 percent of pre-retirement earnings, these farmers have no other sources of guaranteed retirement income no matter how long they should live. If public and private retirement systems continue their decline as sources of guaranteed retirement income, the nation, millions of farmers, and other Americans could have a crisis on their hands.⁴

³ According to the USDA, most family farms are organized as sole proprietorships.

⁴ "According to an August 2004 U.S. Labor Department report, "The percent of workers covered by defined benefit plans shows a clear decline—coverage among private industry workers declined by more than one-third over the decade." An April 2001 EBRI report elaborated: "A reason for public policy concern about income adequacy for future retirees is that Social Security's age for payment of full-retirement benefits is rising, and projected long-term financial shortfall could result in a reduction in the current-law benefit promises made to future generations of retirees. Another reason is that fewer baby boomers will be retiring with 'traditional' pension annuities that historically have been the predominant source of pension-provided retirement income."

2 *Farmers' low income levels make it difficult for them to save for retirement.*

The USDA found in 2000 that the average income of retired farm operators was 74 percent of the U.S. household average.⁵ Similarly, the income of farm operators 65 years or older relative to the U.S. average was 72.3 percent.

3 *Not only do farmers' incomes tend to be low, but they face an array of unpredictable risks and challenges that affect not only their annual incomes, but also their future financial well-being.*

Everything from unpredictable weather to disease outbreaks, global competition to trade wars, industry consolidation to shifts in national farm policies contribute to variability in farm income, which greatly impedes many farmers' ability to save consistently and adequately for retirement.⁶ This leaves many farmers only with the equity in their farms, livestock and equipment to fund their retirements.

Indeed, the variability in farm income is significant. A 2002 U.S. Department of Agriculture (USDA) report concluded that "variability of farm household income far exceeds that of all U.S. households," citing the following causes:

- Unpredictable weather and biological risks which contribute to volatility in farm output and commodity prices
- Business cycles and other general economic conditions
- Export demand which tends to be unstable
- Policy actions such as agricultural trade embargoes in the 1970s and 1980s
- Macroeconomic policies, as they affect interest rates and exchange rates⁷

Lastly, because women on the average live longer than men and spend more time in retirement, farm wives are especially at risk to experience a declining standard of living in retirement. A typical 65-year-old woman has a 31 percent chance of living to age 90 or older, as compared to only 18 percent for a typical 65-year-old male. Already, fifteen percent of rural women age 60 and older are poor, as compared to 11 percent of men. In fact, two-thirds of the rural persons age 60 and above earning less than \$10,000 were women – by age 85, four-fifths of the elderly poor are women.

⁵ USDA defines "retirement farms" as small farms (sales less than \$250,000) whose operators report they are retired. Seventy-five percent of retirement farms are operated by farmers age 65 or older.

⁶ "Income, Wealth, and the Economic Well-Being of Farm Households," Economic Research Service, USDA, p. 26, 2002

⁷ "Income, Wealth and Economic Well-Being of Farm Households," p. 26.



RURAL COMMUNITIES AFFECTED AS WELL

The challenges farmers face in saving for retirement impacts more than just those families. Indeed, when our nation's farmers are not able to maintain a basic standard of living in retirement, this has a profound ripple effect on rural communities across the country. This situation not only results in a sizable drain on local and state coffers, but also threatens to stymie local economic growth, including business development and job production.

Local governments are already straining to provide health, transportation and other social services to the poor and elderly. Retired farmers who outlive their savings add to these demands. A major problem is that the communities where most retired farmers live are some of the poorest in the country and therefore least able to afford services for poor seniors. Rural areas have a higher poverty rate and a higher proportion of both older persons and poor seniors than urban areas. Of the 386 counties in the U.S. with persistent poverty, 340 of them are rural. The most remote rural areas, which have the highest poverty rates (16.8 percent) and lowest levels of employment lack the growth and tax bases to fund services to seniors.⁸

Policymakers need to look at the full equation and concentrate on efforts to help some of America's hardest working individuals maintain their standard of living in retirement.

LIFE ANNUITIES HELP FARMERS

All of these circumstances and uncertainties spell very real retirement challenges for farmers in retirement. The fact is that most experts agree that you need approximately 70 percent of your pre-retirement income in retirement. Today, Social Security only replaces approximately 42 percent. Farmers, perhaps more than most other workers, have serious impediments to saving enough money to make up the difference. But the truth is, there are things policymakers can do that would give America's farming communities a fighting chance. In particular, efforts under consideration by Congress that would provide a tax savings for individuals who put some of their personal money in a lifetime annuity that would pay a steady income throughout retirement stand to hugely benefit farmers, their families and the rural communities in which they live. The one thing farmers absolutely have in their favor is real, tangible assets that if managed properly, can provide income in retirement. A lifetime annuity enables a farmer to convert some or all of his or her assets and savings – such as farm land, machinery and livestock to stocks, bonds, nonfarm real estate and cash – into a guaranteed stream of income that lasts whether the farmer or his spouse lives to age 85 or 95 or beyond. As a source of guaranteed income, such an annuity can be an important complement to a retiree's Social Security and pension income.

⁸ "Rural Population and Migration: Rural Elderly," Economic Research Service, USDA, 2002; "Rural Poverty At A Glance," Economic Research Service, USDA, 2004.

There are a couple of simple ways that encouraging farmers to look at annuities as a source of retirement income can help them save for retirement and manage those retirement savings. First, farmers could periodically put away some money into an annuity assuring themselves of having a source of steady income throughout their lifetime. Already, studies show that farmers are increasingly seeing the value in saving for their retirement, beyond whatever assets they may have in land, machinery, livestock, etc. According to the USDA, average household non-farm assets almost tripled during the period of 1993-1999 (nevertheless, IRA, Keogh, 401(k), and other retirement accounts represent only 26 percent of the non-farm assets for the average farm operator household).⁹ An annuity could help farmers to turn these non-farm assets into a guaranteed stream of income throughout their retirement years.

Secondly, as farmers near retirement age and consider downsizing for retirement, they could place the proceeds from the sale of their farm of land property into an annuity. Many farmers are doing just that, with the Committee of Annuity Insurers reporting that 48 percent of after tax annuities holders fund their plans with proceeds from "one time" events, such as the sale of a home, farm or business.¹⁰

It is clear that for the vast majority of farmers who have no other source of guaranteed income, other than Social Security, a lifetime annuity offers important protection against the financial risks of living a long life. For them, a life annuity is the only retirement vehicle available to individuals that lets them convert their savings into a lifetime stream of income. For many it ensures that the Golden Years are and stay golden.

We believe that if farmers are given the right information and retirement tools, such as lifetime annuities, they can manage financial risks during retirement very successfully.

CONCLUSION

As Congress looks at the retirement security equation as a whole, it becomes immediately clear that the challenge goes far beyond Social Security. The situation with America's farmers is perhaps the greatest example of this. Policymakers need to look at the full equation and concentrate on efforts to help some of America's hardest working individuals maintain their standard of living in retirement. That means supporting measures that would help these individuals and their families turn their hard-earned assets into funds that they cannot outlive in retirement. Not only is it morally wrong to allow our nation's farmers, upon which all Americans depend, to suffer in retirement but moreover, it would be penny wise and pound foolish to ignore this situation. Allowing these issues to go unaddressed will have a severe impact not only on these families, but also on the viability of rural communities across the country and place further constraints on the state and local government budgets who must step in when retirement funds are not sufficient.

⁹ "Income, Wealth and Economic Well-Being of Farm Households," p. 8.

¹⁰ "2001 Gallup Survey Of Non-Qualified Annuity Owners," conducted for the Committee of Annuity Insurers.

Helping a Farming Couple Secure Their Retirement

THE PROBLEM

Larry and Anne, a married couple, are each 67 years old. They own and operate a 450 acre corn farm in Iowa as a family business. Now ready to retire, they have decided to sell their family farm and farm equipment to generate income for their retirement.

Their farm is worth approximately \$900,000 (\$2,000/acre) and they have \$100,000 in equipment that can be auctioned off. Less \$450,000 in loans and taxes, the couple is left with \$550,000 from the sale of their land and equipment.

Larry and Anne plan to reside in their current home, which they own together. Because they own a family farm, they do not have a traditional employer-based retirement plan – their farm assets are their most significant retirement assets. They have managed to save some money in an individual retirement account (IRA) and some additional money in a deferred annuity. They plan to use these assets, along with Social Security and income generated by the sale of their farm assets, to support themselves during retirement. Now they need to convert these assets into an income stream that they can live on for the rest of their lives.

THE SOLUTION

To do this, Larry and Anne make an additional \$350,000 contribution to their annuity using the farm sale proceeds, then elect to receive \$2,500 per month (before taxes) from their annuity for the rest of their lives. The annuity also guarantees that if both Larry and Anne die within the next 20 years, their beneficiaries will continue to receive the monthly annuity payments during that period.

When added to their monthly Social Security benefits and anticipated IRA withdrawals, the annuity payments will provide them with the steady retirement income that they desire and will leave them with \$200,000 in the bank for discretionary spending and emergencies.

Because Larry and Anne are in the 10% tax bracket, their tax bill for 2005 would be about \$705. If the Retirement Security for Life Act is enacted, their tax bill would be reduced to \$32. This amounts to about an extra \$55 per month that they can use towards their basic living expenses.

