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Farm Household Finances and Transition in Agriculture

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Presented February 21, 2013



Outline

- Considerations Underlying Farm Household Transition Decisions
 - Business
 - Personal
- Indicators
 - Market Conditions and Outlook
- Characteristics of Beginning Farms and Farms with a principal operator 65 years old or older
 - (based on 2011 ARMS data)



Business Considerations

- Assets tend to be illiquid and bulky, e.g., difficult to divide
- May need farm income to pay off debt and taxes
- Reduce income, gift, or estate taxes (if over \$5.25 million; \$10.5 million if married)
- Attraction of current returns (income and asset appreciation), or not, depending on enterprise mix



Personal Considerations

- Will retiring provide financial independence for post-farming needs and goals?
- Access to health insurance
- Does the farm family want to leave culture, lifestyle and family home, perhaps multi-generational with many unique amenities?
- Protect farm from depletion of assets due to illness, divorce, disputes, etc.
- Is there an heir ready to enter farming?



Current Financial Indicators

- Income and net worth
 - Caveats about income indicators, i.e., depreciation is an expense and is a tax-based measure, farmers have some control over income for tax purposes, such as incurring discretionary capital expenditures, timing of product sales
- Relative to US households and in the context of time
- Mean and medians

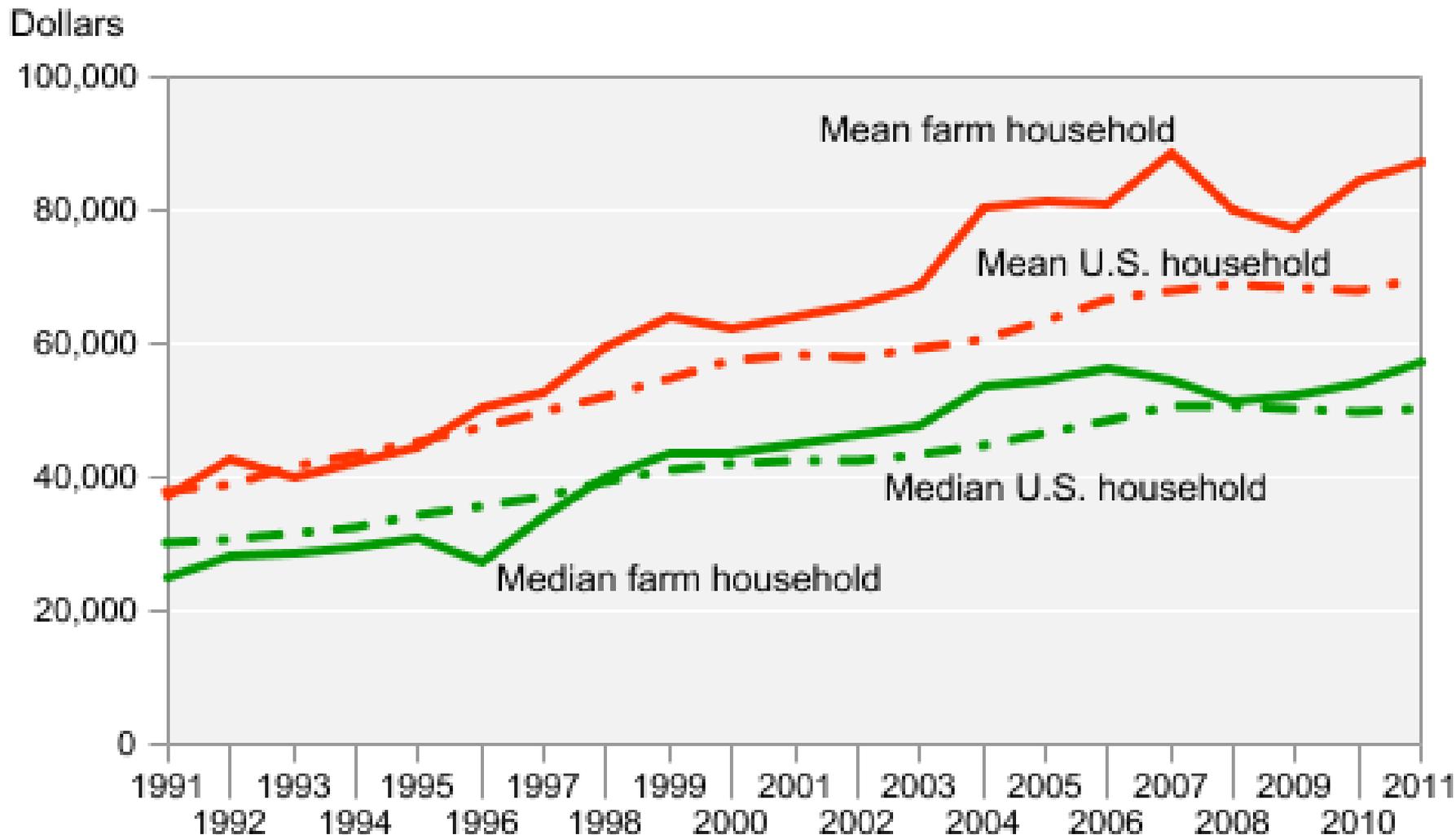


As a group, **relative to U.S. households**, family farm households are in a strong financial position

- In 2011, the ratio of average income of farm households to U.S. households was 1.3. (1.1 for median)
- In 2010, the ratio of average net worth of farm households to U.S. families was 1.9 (7.5 for median)

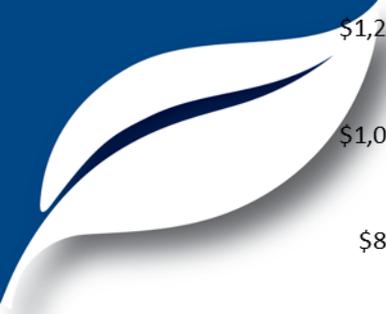
Note that median and mean income ratios are close, not so for net worth...

Farm operator household income compared with U.S. household income, 1991-2011

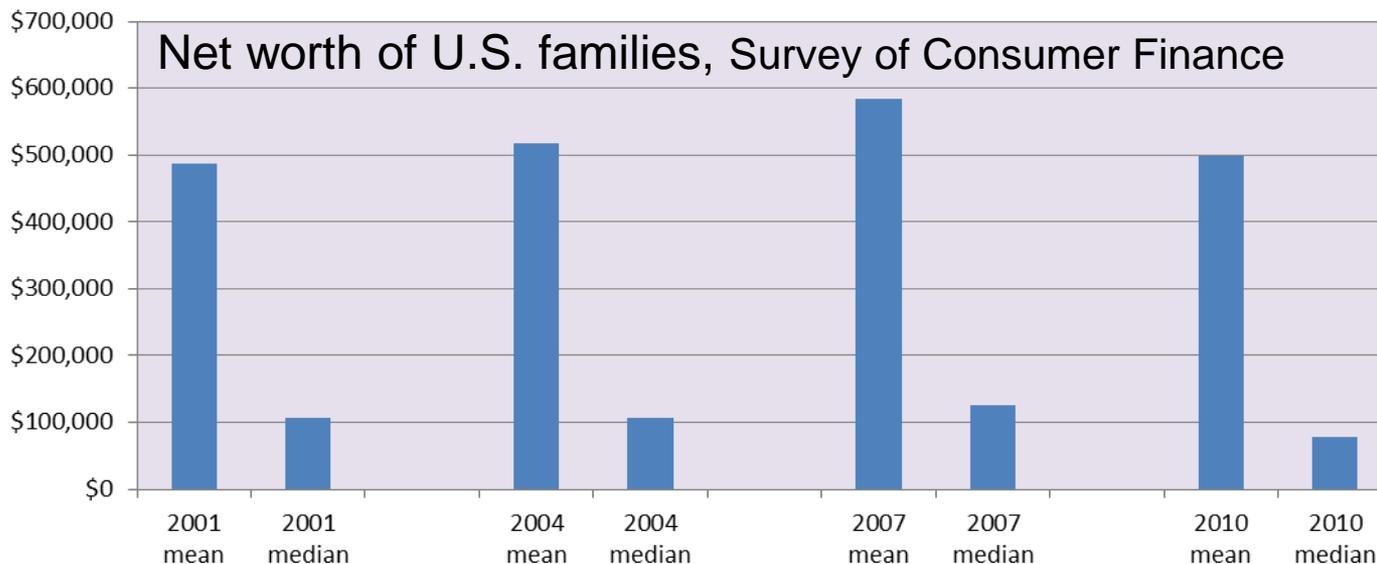
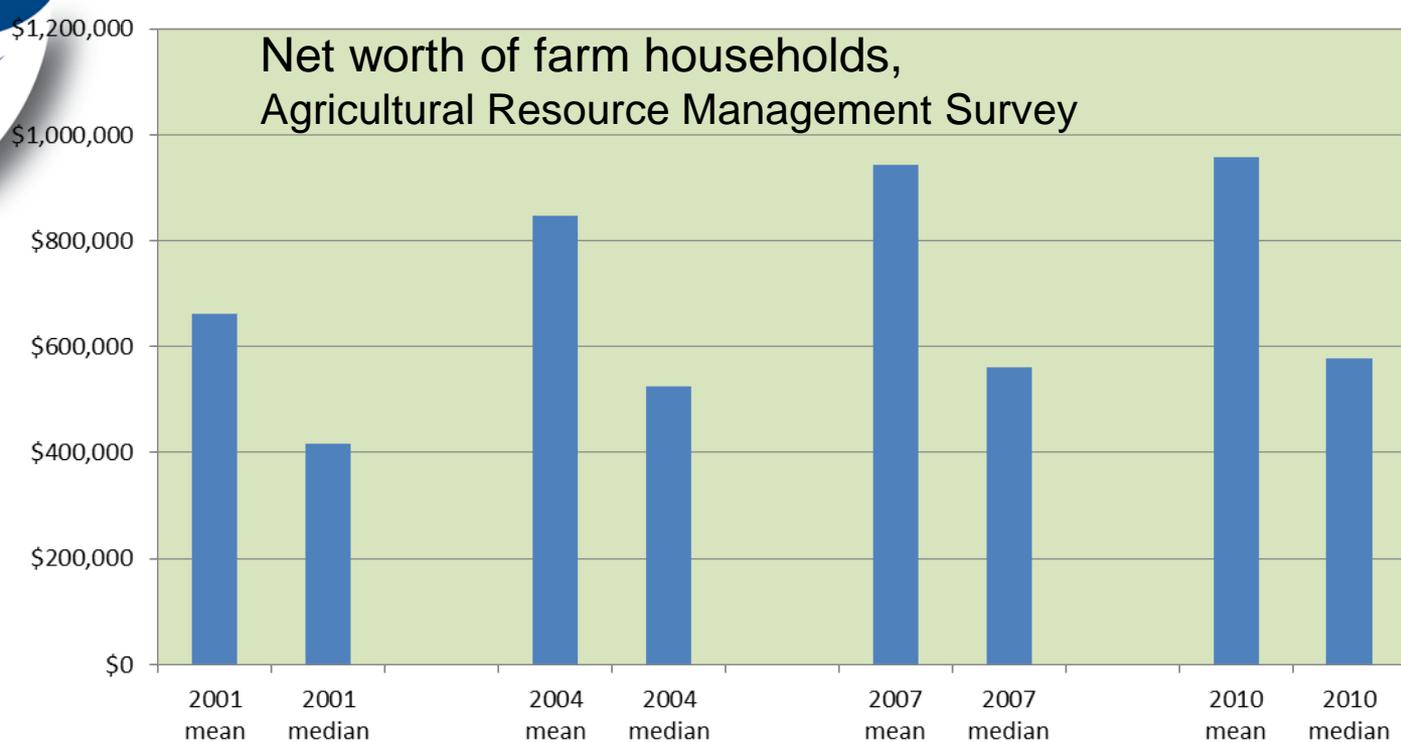


Note: Income is in nominal dollars.

Source: Agricultural Resource Management Survey, ERS and NASS, USDA and Current Population Survey, U.S. Census Bureau.



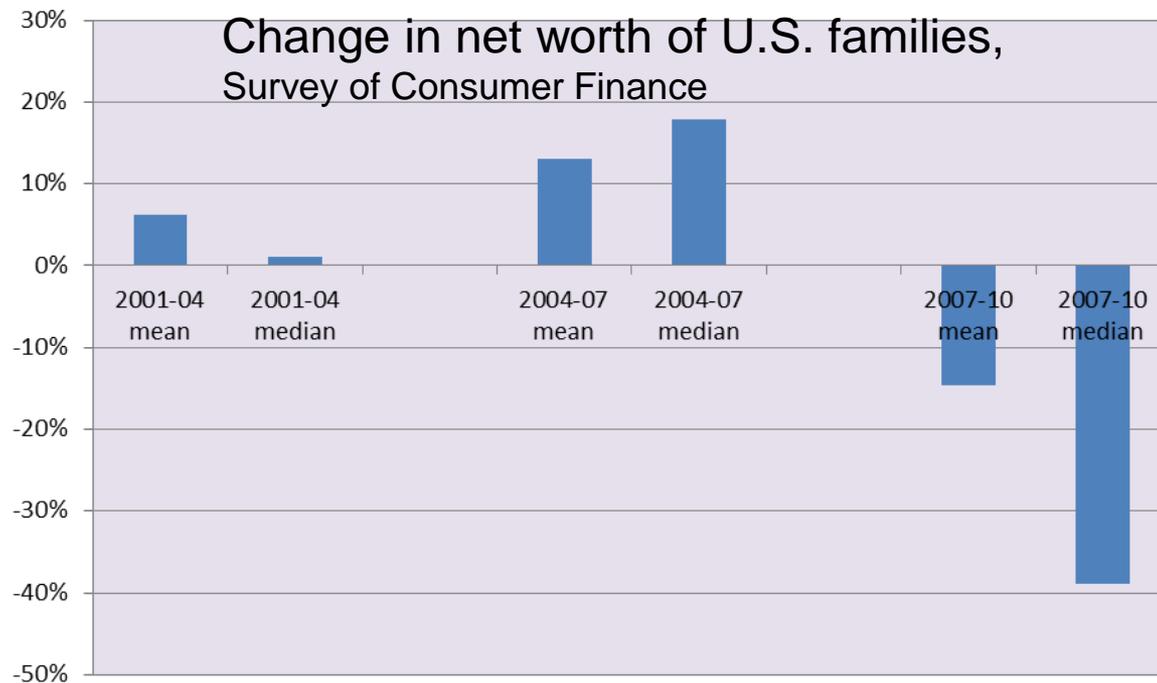
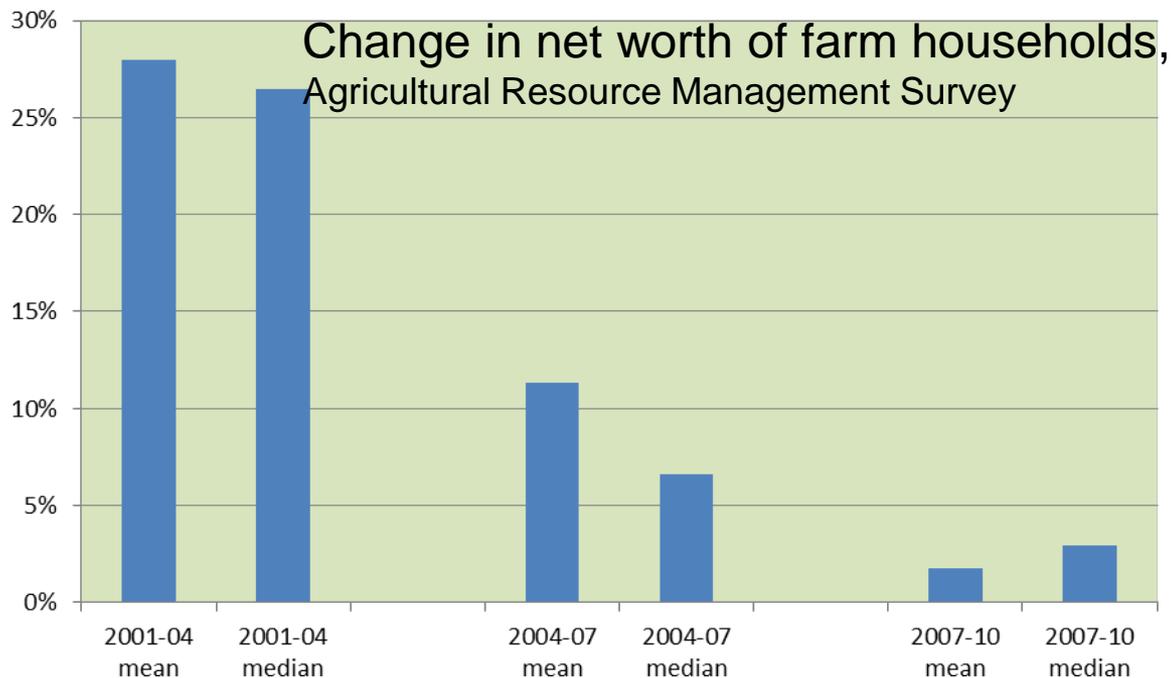
- 2001
- 2004
- 2007
- 2010





Changes between

- 2001 to 2004
- 2004 to 2007
- 2007 to 2010



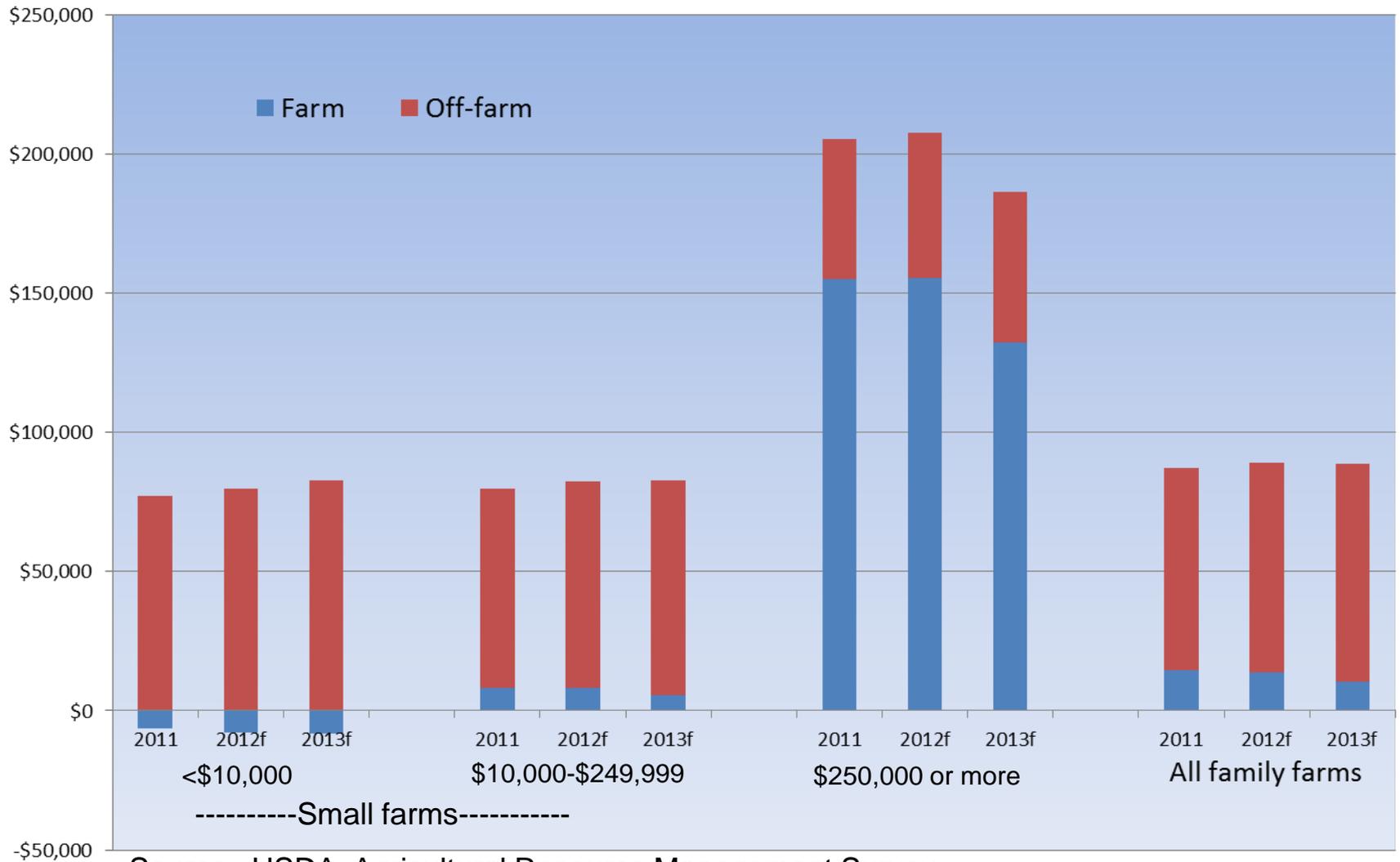


As a group, **relative to previous years**, farm households are in a strong financial position

The 2011 average income of farm operator households of \$87,289 is projected to increase...

- \$89,099 in 2012—with 11 percent from farm sources
- \$88,576 in 2013—with 12 percent from farm sources

2012 income expected to increase for all sizes of farms (in gross sales), family farms operating farms with gross sales over \$250,000 are expected to experience a decline in household income in 2013



Source: USDA, Agricultural Resource Management Survey



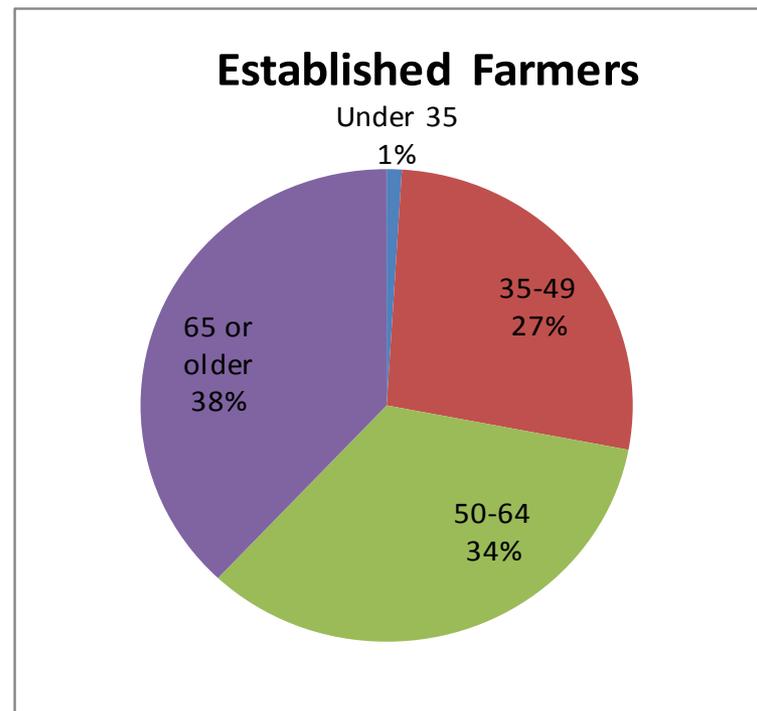
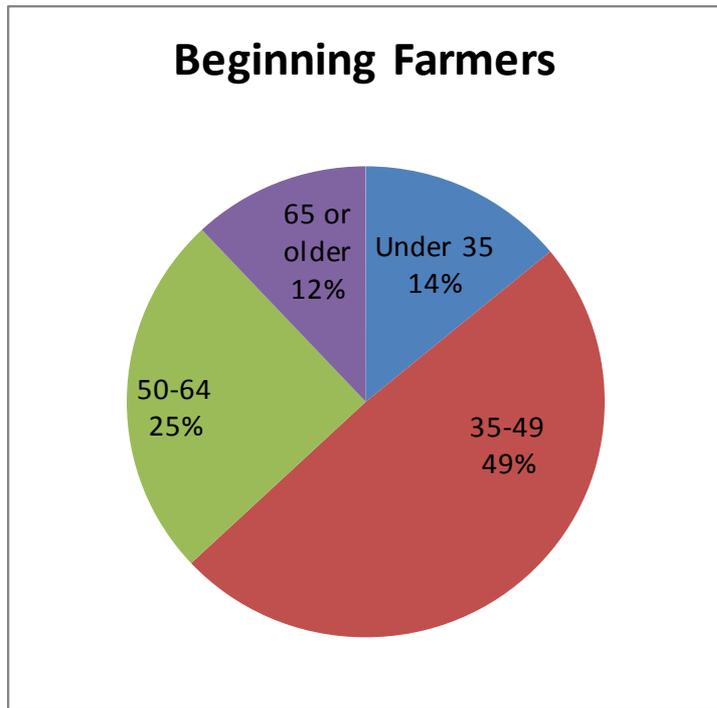
Current financial returns...

- Provide incentives for many established farmers to continue farming, especially grain
 - Except in select commodities, e.g., cotton, rice, those dependent on hired labor and purchased feed
- Provide incentives for beginning farmers to continue farming, but...
 - The competition for farm land is reflected in the high growth rates in prices for farm land and rents making entry and expansion challenging

Background on beginning farmers (BFRs)

- Declining, at least since 1982
- 22% of all farms in 2011; 10% percent of production
- BFRs are more likely than established farms to have no production (30% compared to 23%)
- Smaller on average, 200 acres compared to 434 acres, less likely to participate in gov't programs
- Average household incomes similar to established farms but less from farming, more from off-farm
- For all farms, most common way to acquire land is through purchases from nonrelatives, but BFRs less likely to inherit or purchase from relatives
- USDA has special programs, such as loans, conservation incentives, training, CRP-TIP

14% of BFRs under 35, nearly half 35-49 years old

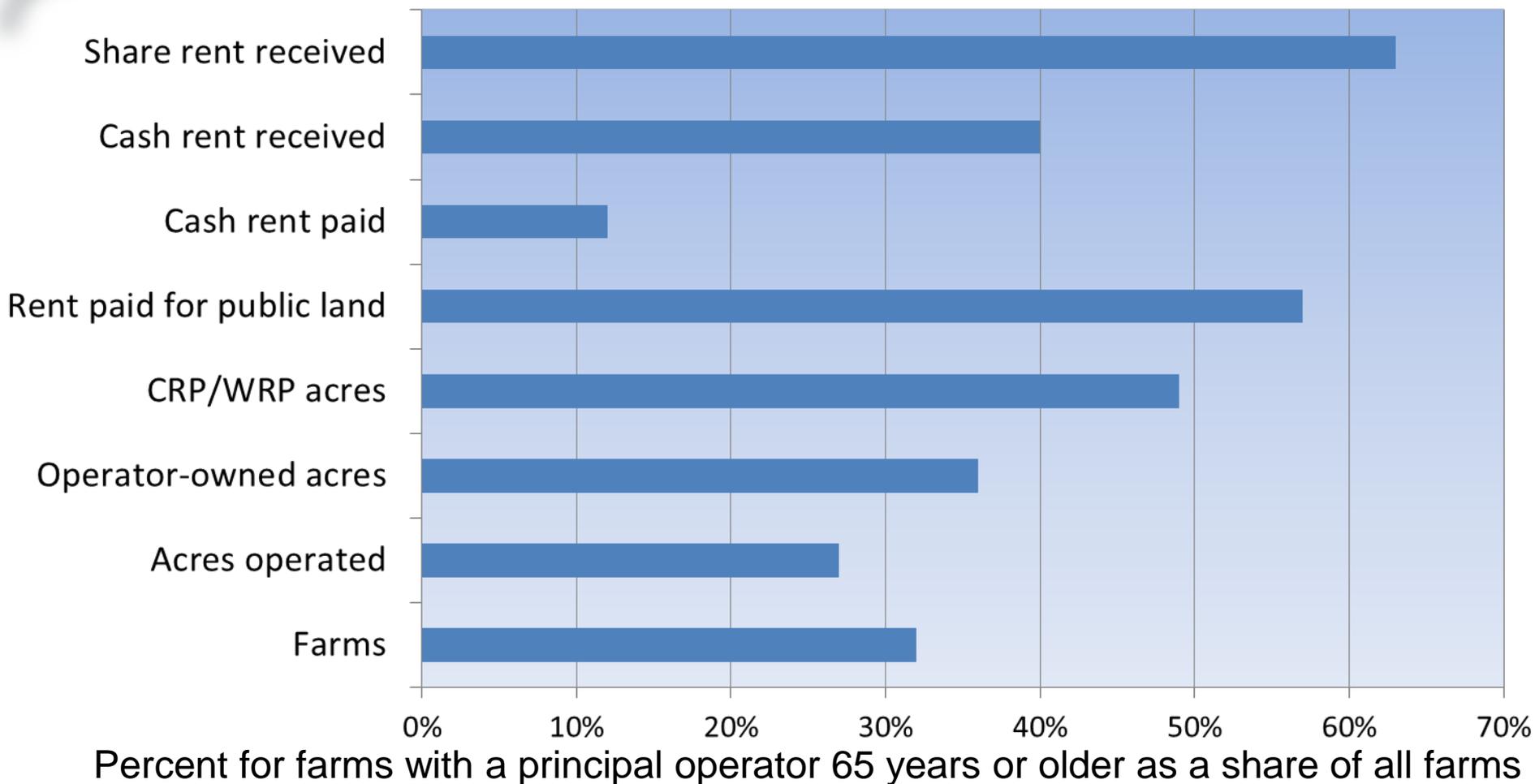


What do we know about those most likely to be transitioning out of agriculture—Those who are 65 years or older?

Background on senior farmers in 2011

- 32% of principal operators are over 65, 8% of these are BFRs
- 26% had no positive value of production
- 11% had no production but acres in CRP/WRP
- 55% reported having farming as a major occupation
- 28% reported that they were not in the workforce

What do we know about the control and use of land by senior farmers?



Percent for farms with a principal operator 65 years or older as a share of all farms



Final Comments

- There is a clear idea about what the younger generation needs in the transition: land, capital, and lessons from the older generation.
- It is less clear what the older generation wants and needs in the transition process out of agriculture.
 - Once these are identified, are there incentives or disincentives that affect the older generation's transition out of agriculture?



THANK YOU!

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