

RETIREMENT

PLANNING FOR

MILLENIAL

FARMERS



Dyson
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SC Johnson College of Business

Cornell **CALS**
College of Agriculture and Life Sciences

NY FarmNet: Who We Are

NY FarmNet is a non-profit program that provides free, confidential, on-farm consulting to any farmer, farm family, or agribusiness employee in the state of New York.

NY FarmNet assigns two consultants to every case: a financial consultant who addresses business financial issues and a social worker to help clients with family or emotional issues.

Any NYS Farmer can contact NY FarmNet 24/7 by calling 1-800-547-3276 or by visiting the NY FarmNet website at nyfarmnet.org and submitting a request for services form.

NY FarmNet is funded primarily by grants from the NYS Department of Agriculture & Markets and the NYS Office of Mental Health.

About Your Speaker

Michael Robertson

- Farm Business Management Specialist at NY FarmNet
- CERTIFIED FINANCIAL PLANNER ® Professional
- 20+ Years Farming
- Gen-X, Not Millennial



Disclaimer: This material has been prepared for informational & educational purposes only and is not intended to provide legal or investment advice.

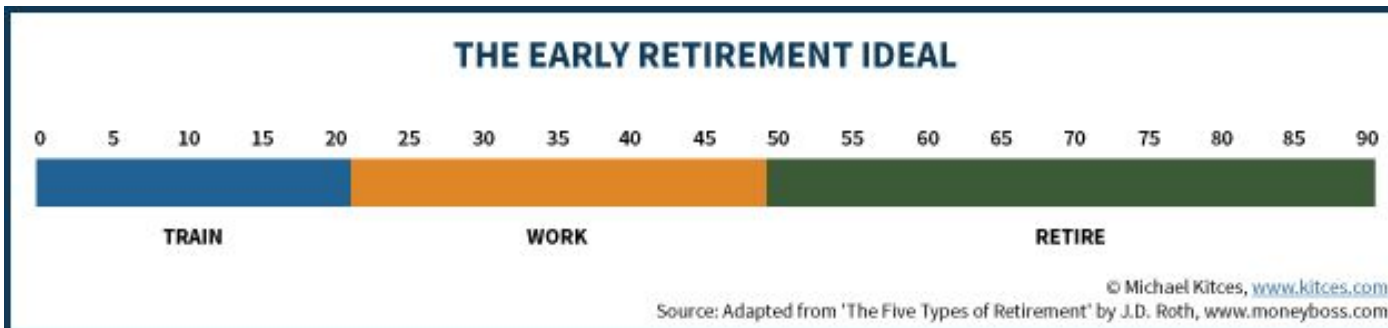
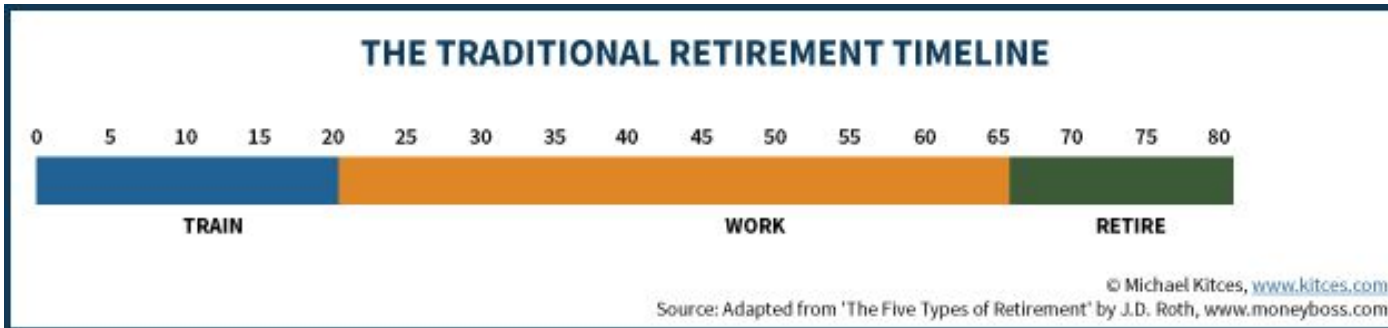
What is Retirement?



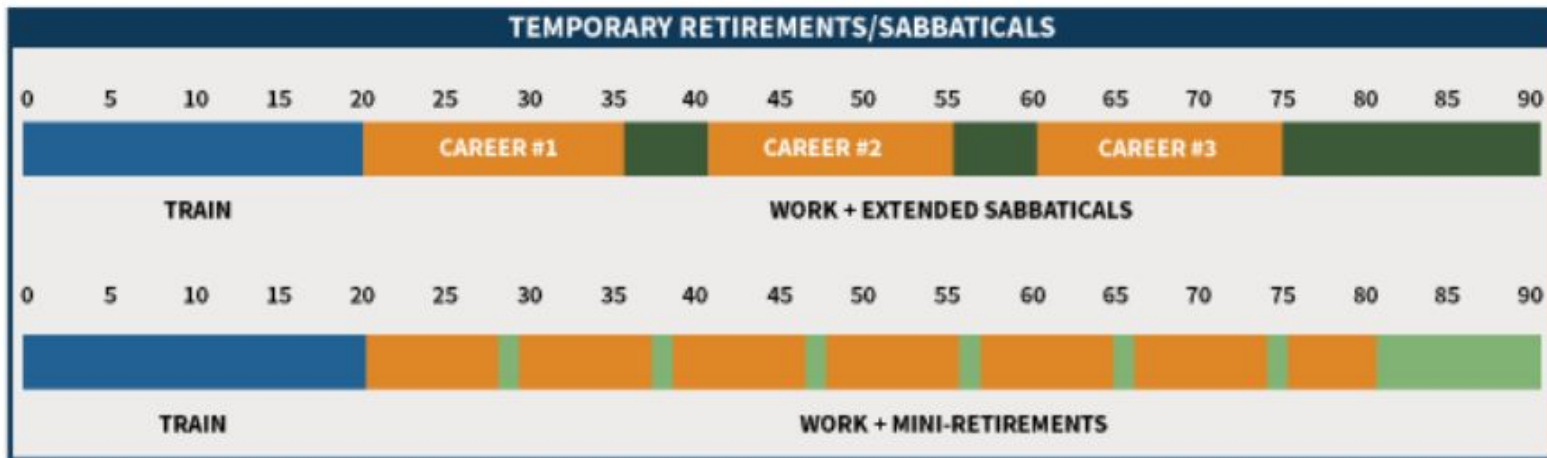
Yes. This will be a drama in three acts, the length fixed by the power that directed your creation, and now directs your dissolution. Neither was yours to determine.

Marcus Aurelius, Meditations

Forms of Retirement



More Forms of Retirement



© Michael Kitces, www.kitces.com
 Source: Adapted from 'The Five Types of Retirement' by J.D. Roth, www.moneyboss.com

How to Fund Retirement

Off- Farm Sources

Social Security

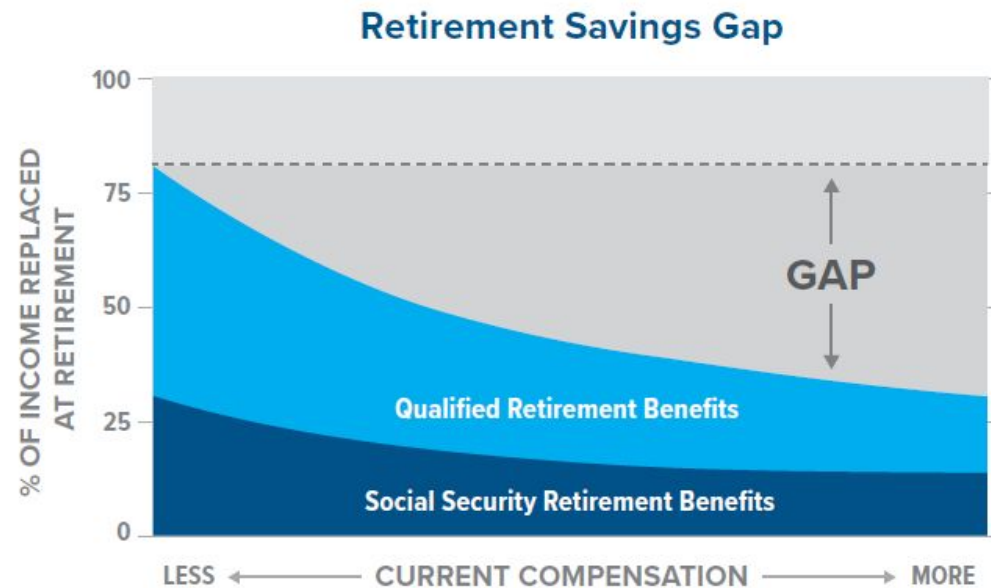
Pensions

Savings &
Investments

Farm Sources

Sale, Lease, Continue Operations

The big question: What role will my farm play in meeting my long-term personal and financial goals?



Challenges for Millennial Farmers

- Millennials:
 - You are in the “messy middle”
 - Retirement seems far off in future
- Farmers:
 - Uncertain income, elevated risks
 - Farmers like stuff
 - “Never going to retire”
- Worry that your farm business won’t meet your changing personal needs & goals.

Questions You Prob Can't Answer

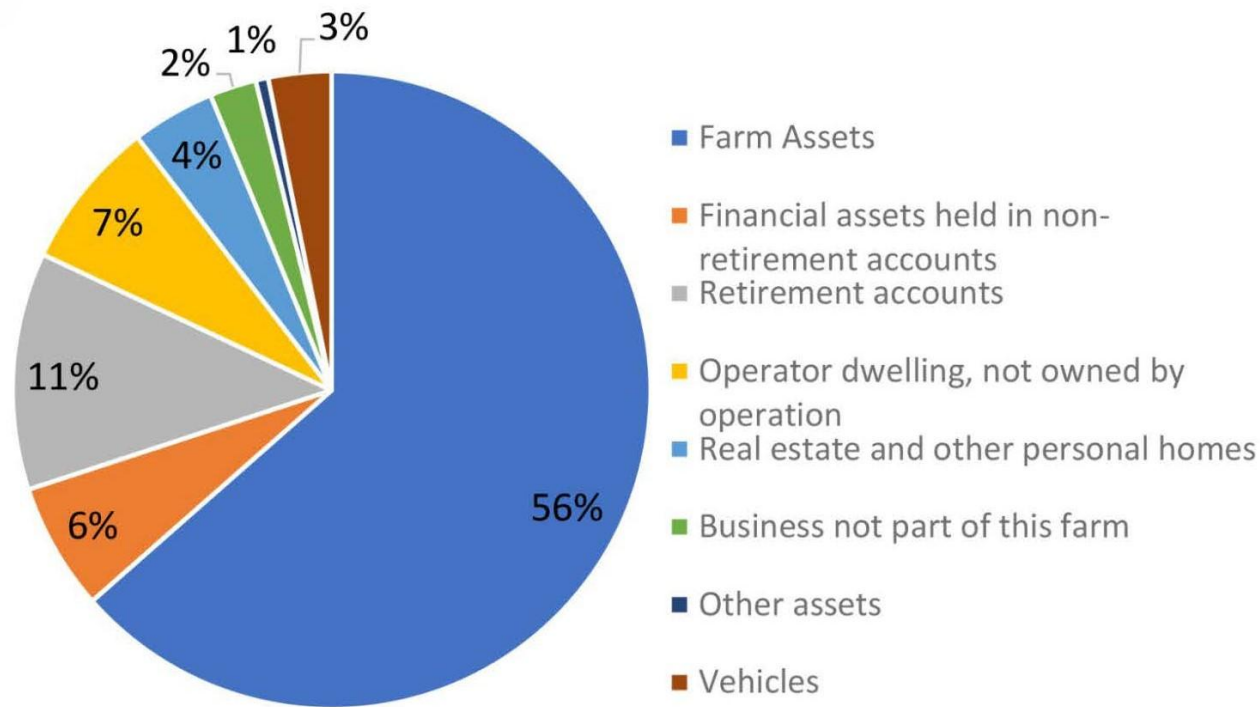
HOW MUCH DO YOU AGREE?	LOW	MEDIUM	HIGH
Cash needed right now			
Desire to move on			
Stress levels			
Desire to avoid risk			
	Transfer or Lease	All 3 options may work	Sale

In case the last chart didn't help you decide, let's flip the questions around and see how you feel about these four questions:

HOW MUCH DO YOU AGREE?	LOW	MEDIUM	HIGH
Continue the farm for the future			
Avoid paying a lot of taxes			
Increase income possibilities			
Risk does not bother me			
	Sale	All 3 options may work	Transfer or Lease

Source: NY FarmNet, Using Farm Assets For Retirement Guide

Farmers' Assets in Retirement

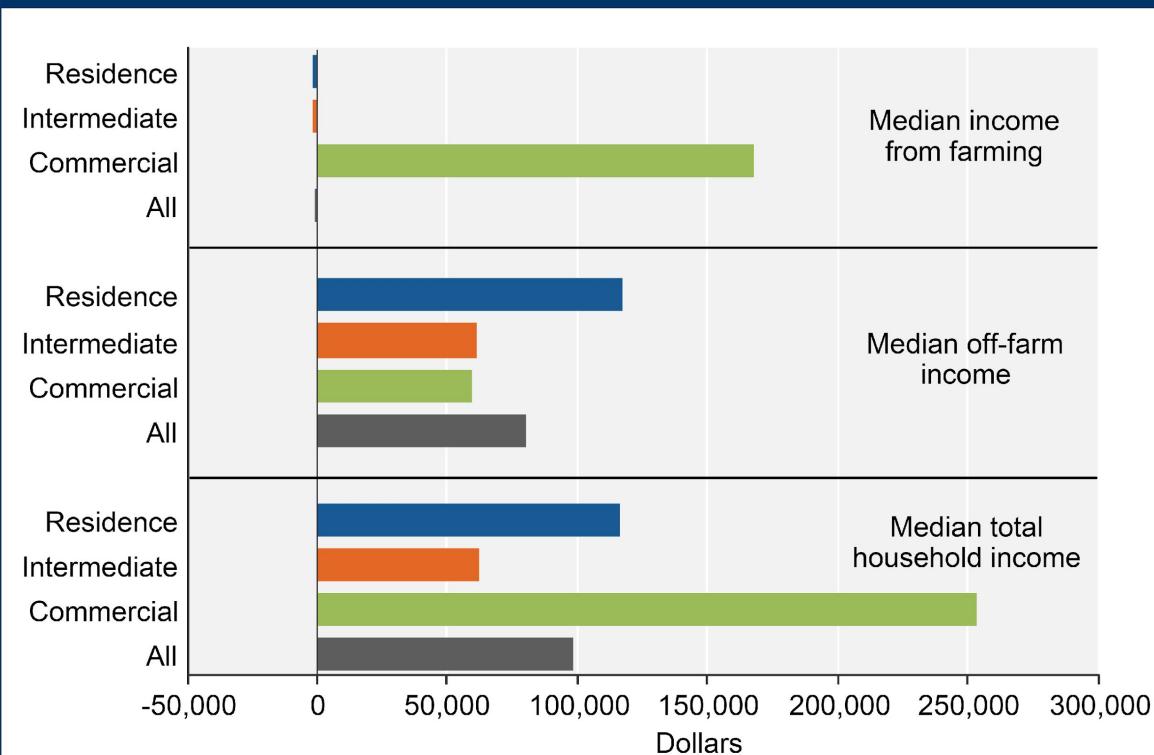


Problems: Liquidity Marketability Divisibility

Source: Retirement income and savings behavior in farm households. Lim & Spalding.

Challenges with Ltd Income

Median farm income, off-farm income, and total income of U.S. farm households, by farm type, 2023



Source: USDA, Economic Research Service and USDA, National Agricultural Statistics Service, Agricultural Resource Management Survey. Data as of December 3, 2024.

Many Eggs, Many Baskets

- If you don't have a clear vision of retirement, prioritize optionality.
- The key is diversification: Business assets and non-business assets working together to meet your goals.
- Retirement planning *is* business planning.
- Planning Concepts:
 - Goal Setting
 - Total Returns
 - Decentered Planning

Planning Concept: Goal Setting

- A goal is just an educated guess
- Goals you can set:
 - Annual income and savings goal
 - Annual revenue goals
 - Retirement annual income goal
 - Retirement net worth goal
- Goals can simply be a date and a number
- Real value of a goal: How it informs your practice

Goal Setting Example

Millennial farmer reviews her current financial situation and sets the following goals:

- Goal 1: \$1,500,000 investment portfolio in 2054 (30 years) to fill a \$60,000 retirement income gap (4% withdrawal rule)
- Goal 2: \$10,000 annual savings for retirement (8% growth)
- Goal 3: \$80,000 in annual farm profit (12.5% savings goal)
- Goal 4: \$500,000 in annual revenue (16% margin)

You can use same framework for:

- Education savings
- Home/farm purchases

Planning Concept: Total Return

- Total Return = Income + Growth
- Grow the Pie Bigger.
- Income:
 - Set annual income and savings goals that create and preserve value of investments off the farm
- Growth:
 - Optimize business decisions that create and preserve value of investments in the farm business
 - Avoid decline and dissolution of farm assets

Total Return: The Income Part

- “How much should I pay myself in my business?”
- Common answers: Living wage, middle-class income, cover “family living expenses”, “whatever is left over from the business”
- You farm should earn enough to meet your financial goals while living according to your values.
 - Family 1: Retiring into farming (\$-50,000)
 - Family 2: Will retire from farming (\$100,000)
- Two income-based sources of retirement:
 - Social Security
 - Retirement Savings

Basics of Social Security

- On average, Soc Sec provides 14% of farmers' income in retirement (it is a safety net)
- Can pay into social security even with business loss
 - Guaranteed payments - partnerships
 - Farm "Optional Method"
- Pay into it every year
 - Suggested minimum income: ~\$14,000
- Can claim as early as 62, as late as 70

Basics of Retirement Savings

- Need earned income to contribute to retirement accounts
- Personal Accounts: Traditional & Roth IRAs (also: HSAs)
- Business Accounts: Simple, SEP, [Solo] 401(k)s
- Tax Considerations:
 - Lower tax brackets favor Roth
 - Brokerage accounts: accessible, different tax benes
 - Strategy of tax hedging: multiple types of accounts
- Investing Concepts:
 - Longer Time Horizon = Can take on more risk
 - Diversified Portfolio:
 - S&P 500, balanced mutual fund, target date fund
 - Do not leave contributions in cash

The Miracle of Compounding

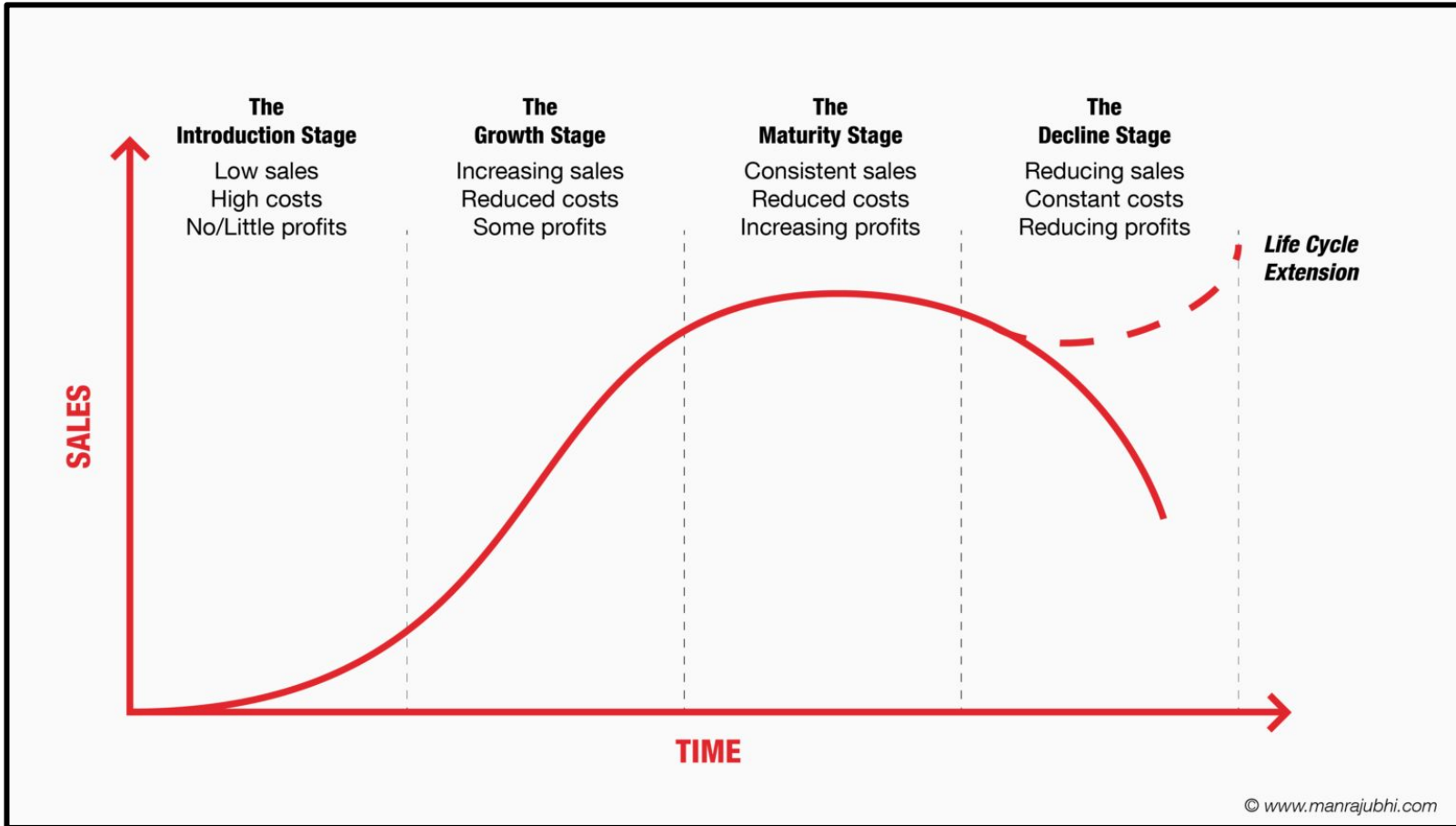
“Compound interest is the eighth wonder of the world.
He who understands it, earns it. He who doesn't, pays it”
- Albert Einstein



Total Return: The Growth Part

- Increasing the value of your farm business
- Strategic Decisions:
 - Expand capacity
 - Invest in improvements
 - Maintain infrastructure
 - Remain a “going concern”
 - Diversify vs Specialize
- Most farms sell at asset valuation:
 - Business unit is not of greater value than the collective value of the individual assets

Growth vs. Stability



Avoid the “Retirement Effect”

- “Operators often slowly disengage from farming by eliminating livestock to reduce labor requirements but continue the cropping enterprises. Eventually, the farmer may opt to let the livestock facilities deteriorate, rent out the cropland, and continue living in the farmhouse in hopes the land will eventually transfer to his or her heirs at his or her death, in spite of the fact the heirs will never farm the land themselves (Potter and Lobley, 1992). This process may severely impact the older generation’s retirement income potential, considering that farm business investments may be the only retirement assets. “

Source Retired Farmer, An Elusive Concept (Kirkpatrick, Joy), Choices Magazine, 2nd quarter, 2013

Planning Concept: Decentering

- Decentering is designed to provide more options for using farm assets in retirement.
- What are we decentering exactly?
 - The Owner/Farmer
 - Tangible Assets (Land, Buildings, Machinery)
 - Intangible Assets (IP, Brand, Customers)
- What do we unlock with decentering?
 - Better business organization and planning
 - Additional revenue streams and increased income
 - More valuable and sellable business
 - Better risk management practices

Concepts derived from work at EPI (Exit Planning Institute)

Owner Characteristics

Centered

- Owner works 50+ hours per week
- Farm likely defines who the owner is
- Owner can't "leave the farm"

Decentered

- Owner has a balanced life
- Owner has a defined personal purpose and vision for the future off the farm
- Farm is a business and not a lifestyle

A farmer sets work-life balance boundaries that enables her to explore self-fulfillment in activities off the farm. There is no identity crisis when she sells the farm because she is retiring to a life of continued significance.

Physical Capital

Centered

- Buildings and facilities are located on the farm
 - Farm Store
 - Processing
 - Storage
 - Farmer housing

Decentered

- Buildings and facilities exist in different locations

A farmer decides to lease a space in town for their farm store. The store is a success, and they open up two more locations. They retire from farm activities at 60 but still actively run the stores.

Structural Capital

Centered

- Intellectual property, SOPs, and training programs all live inside the farmer's head
- Records are kept according to the needs of the farmer

Decentered

- Vision, mission, core values, strategy, and goals are documented
- Processes are standardized and can be followed by successor

In documenting his farm's process, a farmer discovers his techniques could be adeptly more widely. The farmer publishes his techniques online and it is well-received. He is able to create a small revenue stream from this work to supplement his income in retirement.

Customer Capital

Centered

- Customer relationship is tied to the farmer and/or their family

Decentered

- Customers relationship is tied to the farm brand and core values.

A farmer decides not to use images of her family in marketing her farm. She builds her brand around the concept of environmental legacy. She is able to sell her business separate from her land, where she continues to live through retirement.

The Value of Holistic Planning

- Everyone has a “D.I.Y. Expiration Date”.
- If your “tax person” doesn’t know what your “insurance person” or “investment person” is doing, you are missing out on opportunities today.
- Small dollars today are important because they turn into big dollars in the future.

Conclusion



- Set Goals
- Diversify Assets
- Give Yourself Options
- Use Time Wisely

ANY QUESTIONS?





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