

Farmers Can Achieve Financial Goals In 2008

LEXINGTON, KY.

Many farmers want to improve their financial management practices this year as they face rising fuel and fertilizer costs. Farmers can reach their financial goals by reducing debt, increasing savings and investing in the future, said Carl Dillon, associate professor of agricultural economics at the University of Kentucky and Suzanne Badenhop, UK extension specialist for financial management.

"In general, farmers are just like other people," Dillon said. "Some are good financial managers, but some aren't doing the job they would like to be doing because they feel they are too busy to set aside time to think about it."

According to a recent poll conducted by Agriculture Online, farmers listed better cost control and improved financial management as the top two changes they plan to make to their 2008 business plans.

"Across America, savings rates are going down and debt is going up; farmers aren't unique in this," Dillon said.

Badenhop said for the past several years, Americans have had a negative savings rate. About 70 percent of the population lives paycheck to paycheck. The general population and farmers can improve their finances by applying basic money management concepts.

Farmers, especially those in grains, may borrow an operating loan to start the growing season and pay back the loan with the returns from selling their products after the harvest, Badenhop said. While most of these loans will be repaid in full in a relatively short time, farmers should remember to keep their debt to income ratio low. Credit card debt should not be more than 20 percent of a person's net pay.

"Paying off debts is a way of saving money," Badenhop said. "When you're not paying interest to others, additional money isn't coming out of your pocket."

Like other individuals, farmers should try to have six months of their net pay saved in an emergency fund to help cover any unforeseen expenses. This amount may have to be calculated or estimated since many farmers only get paid once or twice a year when crops are sold. If farmers have off farm income, they can increase their savings by allowing their bank to automatically transfer a set amount of money each month from a checking to a savings account.

Since many farmers are self employed, they also need to consider setting aside money to pay for health and life insurance. When deciding on insurance, farmers should remember the acronym DDIME, which means a person should have insurance coverage to protect their family in case of death, debt, income for survivors, mortgage and education for surviving children. Health insurance can be costly for some farmers if they do not have access to a group plan, but some farmers are able to join a group plan through their spouse's occupation, Dillon said. Badenhop said farmers who do not have access to a group plan should consider a health savings account, which invests money for health expenses. The health savings account must be coupled with a high deductible insurance plan to cover any major health problems that could arise.

Badenhop said farmers should consider investing in a term-life policy rather than a full or whole life insurance policy because it is less expensive.

Once people have some money in savings, they can consider investment options. However to some people, deciding which investment to choose can be confusing.

"A good piece of advice is to not invest in anything that you do not understand," Dillon said.

He said farmers should consider tax deferred or tax free investments that do not charge taxes until money is withdrawn. One good option is low management costs index funds, which are dependent upon the performance of several companies.

"With index funds you don't have to hire as many people as you would with other investments, and they have proven to have returns that are just as good if not better than other investments," he said.

Badenhop said mutual funds can also be good investments for farmers. She said mutual funds have an account manager that is judged on the fund's performance, which can be helpful to a farmer who does not have the time to keep track of his investment. Account managers receive a percentage of the fund as payment for their services. There are a wide variety of mutual funds available.

After deciding on an investment, if you're not happy with the investment's return, changes can always be made. Δ