

Kentucky Farm Business Management Program State Newsletter

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Rick Costin, Editor

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NEW

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**SOFTWARE
FOR KFBM**



by Craig Infanger

I am happy to report that the transition to Illinois as our new software vendor is going smoothly. This new software, called FARM, is easier to use and less expensive than the old computer software KFBM used for over 20 years.

Darwin Foley is heading up the transition to the Illinois system. In early May we began the transition to the new software with a one-day training session provided by Dwight Raab, Illinois Farm Business Analysis Specialist. He provided the computer disks, manuals, and assisted in the installation of the software for all of our specialists.

We are planning a second round of training to focus on the analysis portions of the FARM system in October at the fall staff conference for specialists. Both Chuck Cagley, State Coordinator in Illinois, and Dwight Raab will be meeting with us. They will give a careful review of how all reports are calculated in the FARM system.

KFBM members will see many similarities in the printed reports provided by FARM for 1998. However, there is a change in philosophy with this new software. With the Illinios system we are moving from

“whole farm approach” to an “operator only” approach. The measurement standard in the FARM reports is “per operator acre” with operator acres being the acres from which an operator receives an equivalent share. This will take some getting used to but your specialist will work closely with you to explain the new concepts.

FARM also has the advantage of providing 5-year trends for financial analysis (the Sweet 16 ratios). These will be provided in a Financial Trend Analysis report as part of the analysis for your farm business.

At this point, Darwin Foley and I are confident we will have the transition to the new software complete by November and all specialists will be ready to use this new software for year-end analysis. We hope you find the new reports and economic analysis beneficial to your farming enterprise.

**DATE SET FOR
KFBM JULY
MEETING**

by Craig Infanger

The KFBM annual meeting of delegates and State Board will be held in Sebree, Webster County, on July 15. A tour of the Tyson’s hatchery and poultry

processing plant in addition to a grower visit, is planned for the afternoon. The Board meeting will follow at 6:30 p.m.

Any KFBM member is welcome to attend. However, we will need to know you are coming to get an accurate head count for the tour and the meal. Contact Craig Gibson or Darwin Foley if you plan to be with us on July 15.



WHEAT MARKETING AND MANAGEMENT CONSIDERATIONS

by *Steven K. Riggins and
Craig D. Gibson*

Price Outlook

The main factors that have been weighing on the wheat market the past several weeks have been the approach of harvest, declining prices for corn and soybeans and the uncertain climate for U.S. wheat exports in coming months. In June the USDA raised their projection for the size of the 1998 U.S. wheat harvest from 2.356 billion bushels to 2.393 billion bushels. Additionally, they lowered their forecast for exports from 1.125 billion bushels to 1.1 billion bushels. The net effect of these changes was to increase the projection of carryover stocks from 766 million bushels to 827 million bushels. If accurate, this will prove to be the largest stock level since the 868 million bushels recorded in the 1990-91 marketing season. With wheat supplies moderating at the world level and

demand growth remaining intact it seems likely that wheat prices are poised to make a modest recovery. However, stock growth in the U.S. and the Asian economic situation may combine to limit rally potential. If U.S. weather conditions cause corn and soybean prices to rally, wheat prices should follow suit.

Marketing Considerations --- Returns to Drying and Storage

Positive returns to drying (aeration) of wheat appear very likely. At least one elevator in the Green River area is charging 1 percent of the selling price per one-half point of moisture. At this point, it appears that producers may realize returns on wheat when moisture is as low as 16%, assuming no added trucking costs. With added trucking costs of 4 cents per bushel, returns to drying are not realized for moisture levels below 19.5%.

With commercial storage costs of 15 cents per bushel plus 3 cents per month, very little, if any returns to storage may be realized. Options and/or contracts are probably better avenues to take if producers are bullish. However, on-farm storage returns can be found. With current cash prices of \$2.80 and March futures at \$3.27 per bushel, an even basis (i.e., cash price equals futures market price) for January delivery, the opportunity exists for gross storage returns of 47 cents per bushel. With a discount basis of 10-cent, i.e., cash price 10 cents below the futures price, gross returns would equal 37 cents. If good quality wheat is placed in storage and properly cared for, a profitable outcome should be the result. Selling corn for fall delivery and storing wheat on-farm may be a better market strategy at this time than selling wheat and storing corn, assuming the farmer can not store both crops.

Management Considerations --- Loan Deficiency Payments

Producers may find that the harvest time market for wheat may give the opportunity to capture loan deficiency payments (LDP's). These are only available when the posted county price (PCP) is lower than the wheat loan rate (\$2.58 per bu.). The LDP is calculated by multiplying bushels produced (evidenced by sale tickets and/or bin measurements) times the difference between the loan price and the PCP. When a producer receives LDP's, the wheat is not available or any longer eligible for the CCC loan.

PCP's payment rates vary by county. For example, Henderson county is 12 cents per bushel under the Evansville market. Strategies suggest that a producer should capture LDP's on a day when the market has rallied several cents, not on a day it has dropped. This is because PCP's are based on the previous day's market close.

SOCIAL SECURITY TAXES AND THE FAMILY FARM



by *Waylon Ramming*

Part one: A Basic Understanding

For most farm families Social Security taxes have become the major portion of their annual federal tax liability. Few people truly enjoy paying taxes. The task is made even less enjoyable when it is unclear how the taxes will be spent or used to the

taxpayers benefit. The Social Security program is plagued by a number of misunderstandings.

The tax rate for salaries and earnings is 15.3%. This includes 2.9% for Medicare tax and 12.4% for the Old Age, Survivor's, and Disability (OASDI) fund. The taxable base for Medicare taxes is no longer capped, resulting in all net profits and salaries being taxed at 2.9%. Fortunately a ceiling exists for earnings and salaries that are subject to the 12.4% self employment tax. For the 1998 tax year, this ceiling will be the first \$68,400 of earnings. It will be adjusted upward each year for inflation.

Most people think primarily of the retirement benefits when discussing Social Security. Benefits are also possible for surviving spouses and potentially for qualified dependents. Social Security also provides some protection against disability for the taxpayer.

Eligibility for benefits is dependant upon past payments (taxes paid) into the system. To qualify for retirement benefits the retiree must have an earnings history for 40 quarters. For workers born prior to 1929 fewer quarters are required. The allowance is one less quarter for each year back to 1925. The minimum possible level is 36 quarters for those born in 1925 or earlier. The minimum earnings needed to get credit for a quarter's work has been adjusted over time. The level was set at \$670 for 1997. Four quarters' credit could have been obtained with earnings of \$2,680 (\$670 X 4 quarters) in 1997. Earnings above that amount would be considered in calculating your eventual retirement benefit but would not purchase additional quarterly credits for the 1997 tax year.

To qualify for disability or survivor benefits the number of quarters is variable. The Social Security Administration takes into account the limited number of quarters possibly acquired prior to a premature death or disability. If the worker has a history of at least six quarters and at least one quarter of earnings for each year after the age of 21 prior to death or disability then the worker is considered fully insured.

Survivor benefits are available for the surviving spouse of the deceased worker if the worker had obtained 60 years of age. This requirement is relaxed to 50 years of age for the surviving spouse of a disabled worker. Survivor benefits may also be available for the surviving spouse caring for dependant children, in addition to the benefits available for the qualified child. These benefits surrounding qualified children are available to those currently insured. This status assists in making benefits for children of young workers to be more readily available in the event of death or disability.

The availability of disability benefits is based upon your work history and age at the time of the disability. For those workers under age 24 at the time of disability only six quarters' credit is needed. Between 24 and 31, you must have work history for at least half of the time. Beyond 31 years of age the eligibility requirement is 20 credits in the previous 10 years and has been earning sufficient quarterly credits to qualify for retirement benefits had you been able to continue working.

The most pressing question for most workers approaching retirement age centers on their projected monthly retirement benefit. The variables most important in the calculation are your highest 35 years of earning, date

of birth and age at retirement. Your earnings history can be requested from your local Social Security office, by calling toll free 1-800-772-1213 or from the Social Security's web site at www.ssa.gov. You will receive your Personal Earnings and Benefits Statement. You should review the statement for errors or omissions of your work history. This statement will also provide some rough estimates of your eventual monthly benefit.

In the next newsletter we will discuss some planning strategies. These topics will be covered: how retirement age impacts monthly benefit, maintaining retired status and obtaining disability coverage.

PRINCETON FIELD DAY

On Thursday, July 16, the University of Kentucky College of Agriculture will hold the 1998 Field Day at the Princeton Education and Research Center from 8:00 a.m. to 3 p.m. (CDT). The program will include tours, demonstrations, exhibits, and provide diagnostic services throughout the day. There will be something for everyone so plan on attending and bring the family. For more information contact your County Extension Office.



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