
KENTUCKY FARM BUSINESS MANAGEMENT PROGRAM STATE NEWSLETTER

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Questions About Social Security

By Rush Midkiff & Suzy Martin

As a specialist, we are often asked questions about the Social Security Program. With this article, we hope to answer a few questions and give you the resources to answer any other questions you might have.

Question 1: If I max out my social security earnings the last five years I farm, will my benefits go up?

Answer 1: Yes, but not a whole lot. Social Security benefits are based on earnings averaged over most of a worker's lifetime. Earnings are indexed to account for changes in average wages since the year the earnings were received. Then, the Social Security Administration calculates your monthly indexed earnings during the 35 years in which you earned the most. They then apply a formula to the earnings and arrive at your basic benefit. This is the amount you will receive at your retirement age. For most people, this is age 65. For people born in 1938 or later, the age gradually increases until it reaches 67 for people born after 1959.

Question 2: My wife doesn't work. Can she qualify on my record?

Answer 2: The question applies to husbands as well as wives. Even if he or she has never worked under social security, your spouse, at full retirement age, can receive a benefit equal to one-half of your retirement amount. If your spouse will receive a pension for work not covered by social security such as government employment, the

amount of his or her social security benefits on your record may be reduced.

Question 3: How much does someone have to work to obtain social security benefits?

Answer 3: Generally, you must have 40 social security credits to be eligible for retirement benefits. You can earn up to 4 credits per year. So you need to work 10 years to be eligible for retirement benefits. During your working years, earnings covered by social security are posted to your social security record.

Question 4: What is a credit?

Answer 4: Credits are based on the amount someone earns. In 2006 the amount for one credit is \$970. In 2007 one credit is earned for each \$1000. So for 4 credits an individual must earn \$4,000 in 2007.

Question 5: What about disability benefits? How many credits do I need? How do I meet the earnings requirement for disability benefits?

Answer 5: In general, to get disability benefits, you must meet two different earnings test:

1. A “recent work” test based on your age at the time you became disabled; and
2. A “duration of work” test to show that you worked long enough under Social Security.

The table below shows the rules for how much work you need for the “recent work” test based on your age when your disability began. The rules in this table are based on the **calendar quarter** in which you turned or will turn a certain age.

The calendar quarters are:

First Quarter: January 1 through March 31

Second Quarter: April 1 through June 30

Third Quarter: July 1 through Sept. 30

Fourth Quarter: October 1 through Dec. 31

Rules for work needed for the “recent work test”	
If you became disabled.....	Then you generally need:
In or before the quarter you turn age 24	1.5 years of work during the three-year period ending with the quarter your disability began.
In the quarter after you turn age 24 but before the quarter you turn age 31	Work during half the time for the period beginning with the quarter after you turned 21 and ending with the quarter you became disabled. Example: If you become disabled in the quarter you turned age 27, then you would need three years of work out of the 6-year period ending with the quarter you became disabled.
In the quarter you turn age 31 or later	Work during 5 years out of the 10-year period ending with the quarter your disability began.

The following table shows examples of how much work you need to meet the “duration of work test” if you become disabled at various selected ages. For the “duration of work” test, your work does not have to fall within a certain period of time.

NOTE: This table does not cover all situations.

Examples of work needed for the “recent work” test	
If you become disabled.....	
Before age 28	1.5 years of work
Age 30	2 years
Age 34	3 years
Age 38	4 years
Age 42	5 years
Age 44	5.5 years
Age 46	6 years
Age 48	6.5 years
Age 50	7 years
Age 52	7.5 years
Age 54	8 years
Age 56	8.5 years
Age 58	9 years
Age 60	9.5 years

These are just some of the questions we are asked by clients. The answers were found at the Social Security website (www.ssa.gov). The web site is easy to navigate and has answers to even more questions. We would encourage everyone to become more informed on the rights and benefits administered by the social security administration.

A Few Considerations in Sowing Wheat This Fall

By Craig Gibson

It is that time of the year when many producers examine sowing wheat. Due to price considerations, it is expected that 2007 wheat acreage will increase if weather cooperates to allow fall seeding. Because so many more variables exist in projecting wheat/double crop soybean profitability than other alternative cropping activities, producers can only be advised on the possible outcomes, given their individual resources and circumstances. This article highlights key variables that have influenced wheat/double crop soybeans profitability.

Yield Trends. KFBM yield data indicate large variations in wheat and double crop soybeans over the last five years. Therefore, land should be a very serious consideration in wheat production. Soil classification can provide a very important clue to suitability as “wet natured” soils may limit wheat yields. Tiled land may help “wet” soils. However, the field tile may not completely solve the “wet soil” problem during wet weather conditions.

Profitability is immensely influenced by whether the land is rented under a “crop share” arrangement and the type of share arrangement. Many landlords who do not bear any annual input costs really enjoy the benefits of “double cropping” wheat and soybeans. The rent equivalent realized in such an activity can be very rewarding... to the landlord. It is obvious at whose expense. It is quite conceivable that the tenant may experience negative returns over variable costs at certain price, yield, and variable cost levels!

Trends in Gross Returns. Gross returns are determined from yields and prices received after adjustments for any changes in inventory values and seed use. Although yields typically influence gross returns more than prices received, loan deficiency payments (LDP's) also influence gross returns and certainly impact the bottom line of the producer.

It seems that Chicago Board of Trade wheat prices are stimulating interest in sowing wheat this fall. July 2007 wheat futures made a new contract high of \$4.85 on October 4th. This is substantially higher than five-year per unit averages for KFBM cooperating farms. However, caution is advised. Basis, test weight, and moisture discounts erode potential gross returns. In addition, it is likely that

with higher wheat acreage and average yields (68.4 bu/ac), current price levels will not be available during the 2007 harvest.

Production Costs. Wheat production costs have been escalating as well as production costs of corn and soybeans. KFBM data indicated that non-land costs have been increasing about 4.3% per year for wheat/double crop soybeans. This compares with annual percentage increases in non-land costs of corn and soybeans of about 6.4% and 4.8% per year, respectively. Land costs, too, have been increasing at the rate of 1.2% for each of the respective crops.

Many producers plan cropping activities based upon returns over variable costs and crop rotation. By reviewing historical labor and machinery & power costs, it is apparent they are much higher when double cropping. For example, the additional hours of combine use are reflected at that time when the producer replaces the combine with another. Therefore, projecting returns to land, operator labor, and management may be a more appropriate measure of comparing corn and soybean production to wheat/double crop soybean production.

Assuming yield difference exists between double crop and single crop soybeans, what is the maximum yield difference to justify double cropping? Based on the most recent five year KFBM data, the answer is about 3 to 9 bushels, dependent on the measure of returns over costs. However, if the 2007 wheat yield is 58.4 bu/ac (10 bu/ac less than the five year average) and sells at \$4 per bushel, the yield difference falls to 0 to 6 bushels per acre to justify double cropping, in comparison to single crop soybeans.

On the surface, it appears that sowing wheat this fall is a profitable opportunity for producers. However, the opportunity may purely rest with the current opportunity to establish a lucrative price for the crop.

Is Lightbar Right For You?

By Curtis Mahnken, Ben Kayrouz, Dr. Carl Dillon, and Dr. Tim Stombaugh

As the leaves change colors and the fall harvest wraps up, Kentucky farmers' minds begin to shift toward decisions that will need to be made for the 2007 (and beyond) crop year. An increasingly common decision is whether to employ precision agriculture techniques in an operation. One relatively

inexpensive precision agriculture tool that has been around for a while is the lightbar technology.

The main function of lightbar technology is to assist the machine operator in driving, while in turn reducing application error. Lightbars give a visual guide that changes colors indicating the operator is off the desired path which is determined by a linked GPS receiver. Software associated with lightbar allows the operator to specify the sensitivity and distance between the swaths (Robert Grisso). Past studies have shown that due to the reduction in application error there is a foreseen reduction in chemical use of at least 2% (Stombaugh), and studies have shown it to be in the vicinity of 10%. The thought that Kentucky farmers need to keep in mind is: "Is lightbar right for me?" To answer this question, as with any other investment, one should weigh the potential benefit against the potential cost. And can the cost of this technology be spread out over enough of my land in order to make it profitable? There are obvious benefits such as the reduction of application error (i.e. overlaps and skips) which in turn equates to reduction in input uses or increases in yield, longer available work hours, and reduction of operator fatigue and eye strain resulting in a happier farmer. Using the University of Kentucky's cash crop budgets (accessible at <http://www.uky.edu/Ag/AgEcon/extension.html> under "Farm Management") for a rough estimate for potential benefits and assuming that there is a 2% reduction in fertilizer and chemicals (and no other costs or revenues change) there is a \$2.16 decrease in variable costs per acre for double crop wheat and soybeans and a \$2.00 decrease for conventional corn (rough estimate, more research is being conducted). Along with the benefits there are costs. Lightbar systems typically cost somewhere in the range of \$1000 for the simplest lightbar to around \$5000 for the systems with the most features. Another cost to be aware of is the opportunity cost of time. The cost of your time to participate in the learning curve of this technology may be sufficiently high to discourage you from learning how to make lightbar technologies profitable. For example, if you are a livestock producer and your time is worth more by working with the cattle then this technology may not be worth as much to you as a cash crop producer where timeliness is vital. Conversely, this technology may be worth more to you if you have other enterprises because this technology could

increase the amount of time that you could do the activities that are more profitable or more enjoyable.

Farmers who have tried it have improved their driving accuracy. Dr. Tim Stombaugh, who has administered lightbar testing with farmers, said, "Everyone did better with lightbar." His advice for those of you who are unsure if you would like lightbar technology (or unsure of which lightbar is the one for you) is to get in front of one and see if you'd like it and to determine what your preference would be. Kentucky has a few prominent distributors that provide precision agriculture equipment such as lightbars and they are: Agri*Mart which is in Owensboro, and H & R Implement Co. Inc. which is in Russellville, Hopkinsville and Owensboro. So, is lightbar or any other precision agriculture technology for you? That is for you to decide but luckily, the University of Kentucky and its Cooperative Extension Service, as well as your friendly KFBM specialist can help you make that decision. And just a friendly reminder that for further information on precision agriculture tools such as lightbar, visit www.bae.uky.edu/precag.

- Robert Grisso, Extension Engineer, Biological Systems Engineering Department and Mark Alley, Professor, Crop & Soil Environmental Sciences; Virginia Tech Publication Number: 442-501, posted January 2002
- Stombaugh, Tim. Cooperative Extension Service. University of Kentucky. 2002.

2005 Family Living Costs Analyzed

By Jennifer Rogers & Suzy Martin

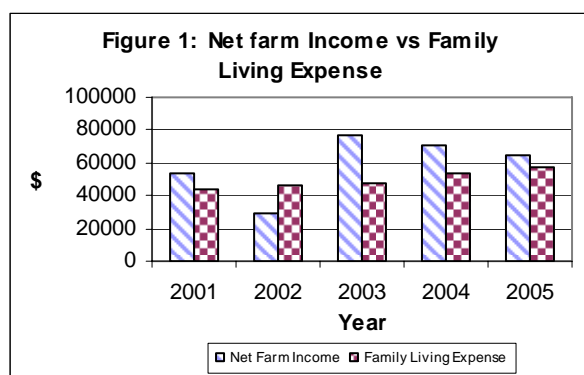
The effects of family living expenses can be significant to any farming operation. It is very important that farms measure the amount of farm resources that are being spent toward family living costs. The Kentucky Farm Business Management (KFBM) program compiles data from farming operations across the state. Out of this data set, 121 farms provided family living data.

The average family in the family living study had 2.8 members and the average operator age was 55. Family living expenses for 2005 averaged \$57,336. This included \$4060 for contribution, \$7346 for medical expenses, \$1421 for life insurance, \$40,936 on expendables, and \$3573 on capital items. Income made available from off-farm wages was \$42,068.

The Impact of Rising Energy Costs

By R.W. Eldridge

While family living expenses vary greatly among different families it is an item of concern that family living expenses continue to rise, even in years when net farm income falls. As you can see in Figure 1 for years 2001 through 2005 the average family living expense continues to rise as the average net farm income fluctuates from year to year. In 2005 the family living cost increased 6.8% over the average from 2004, while the average net farm income fell 8.75% from the 2004 level.

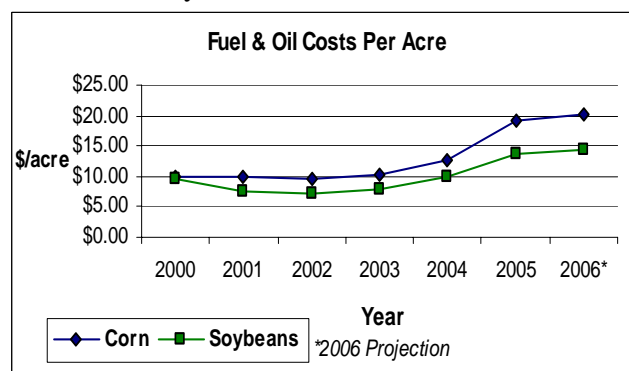


Another interesting occurrence from the data is that while family living expenses vary with the size of families, it is not always the largest families that spend the most. The data was sorted into three different family size groups. Those with one or two people in the family spent \$48,489, those with three to five spent \$69,749 and those with greater than five members spent \$53,280. Thus, the largest families spent less on family living than those that we would consider to be average sized. This may be due to the culture of the families with more than 5 members (in most cases more than 3 children) or it may be due to the need to watch spending more efficiently due to the lack of non-farm income (only \$16,345) for these larger families. However, it is not the large families that are spending all of the money.

As stated previously, family living expenses can have a large impact on the financial situation of any farming operation. If there is not income to support the living habits of the family, then where does the money come from? Are operating notes being drawn upon to fund the family? Are savings dwindling? Farms go in debt to buy land and equipment in order to facilitate production, exorbitant family living does not increase the productive capacity of the farming operation and may be eating away all of the farm's profit.

In a previous publication, Dr. Larry Jones offered input on what's behind higher fuel costs. This month, let's take that discussion a step further and talk about the impact of higher energy prices on Kentucky farmers. What we saw in 2005 may have brought America to a new forefront on the cost of energy. Although we are thankful for the drop at the pumps in recent weeks, the price of gasoline is still well over \$2.00 per gallon throughout most of Kentucky and Highway Diesel has held strong above \$2.50 per gallon. Wouldn't these numbers have seemed catastrophic 5 years ago? Now many of us are thankful that the first digit is a 2 as opposed to a 3 or even 4 in some parts of the country.

As the harvest gets into full swing, fuel and energy costs will add up fast for many row crop operations. 2006 projections have fuel and oil expenses per acre on corn and soybeans approximately 5% higher. This increase comes on the heels of 2005 when producers experienced nearly a 40% and 50% increase in per acre fuel costs on soybeans and corn, respectively. The chart below shows per acre fuel and oil costs on corn and single crop soybeans grown by Kentucky Farm Business Management (KFBM) cooperators in the Ohio Valley Association.



Along with the fuel expense, the cost of drying grain has also increased this year. Propane costs are approximately 20% higher this year, which will raise the cost of drying grain. Fertilizer, especially nitrogen, costs were also higher this year due to the higher prices of natural gas and freight in 2005 and 2006. These same farms in the Ohio Valley Area experienced over a 20% increase in per acre fertilizer costs on corn and a 6% per acre increase in fertilizer costs for soybeans.

These increased costs along with the added effects of higher energy prices throughout the agricultural

sector will have a continued impact on the farmers' bottom line. Increases in freight due to rising fuel costs have impacted most inputs that farmers purchase. Everything from seed to feed has been affected by these increased shipping costs. Take that rising transportation cost a step further and farmers again take a hit due to a widened basis when they market their product. Whether we are talking about soybeans or feeder cattle, this increased transportation cost faced by the buyer is usually passed on to the producer.

Fuel and energy markets are very volatile and it is hard to speculate where the future of these prices may be headed. However, with the rising demand mentioned in last month's article, it doesn't seem as though we are in for significant price decreases. Farmers will have to continue to work to control these costs, as well as others, through better management practices in order to remain profitable.

External Review

By Dr. Lynn Robbins

As reported in the summer newsletter, an external review of the KFBM program was conducted this past summer. An external review was one of the main recommendations that came out of the 2003 Internal Program Review. The external review outlined several recommendations for the program. The first recommendation called for a meeting between the affected groups, meaning the college/department and the cooperators. This group was charged with jointly determining the course for the future of the program. Other important points for discussion were streamlining of data processing, specialist's training, restructuring and reallocation of support, and eliminating as many inefficiencies and inequities as possible.

A meeting consisting of representatives listed below was held in Elizabethtown on September 22nd. Bob Allen – Pennyroyal, Joe Bertram – Pennyroyal, Steve Bolinger – Pennyroyal, Marion Sisk – Pennyroyal, Randy Mann – Pennyroyal, Lynne Deweese – Purchase, David Deibel - Lincoln Trail, Kenneth Hayden - Lincoln Trail, George Hupman-Lincoln Trail, Eddie Melton - Ohio Valley, Jerry Obryan - Ohio Valley, Jim Wade – Bluegrass, Todd Clark – Bluegrass, Scott

Smith - Ag College, Carl Dillon - Ag Econ, Lee Meyer - Ag Econ, Jack McAlister - Animal Science, Dave Heisterberg – Coordinator, RW Eldridge – Bluegrass, Suzy Martin - Ohio Valley, Rush Midkiff – Pennyroyal, Jennifer Rogers – Purchase and Lynn Robbins - Ag Econ

The External Review Report and the September meeting emphasized looking for solutions to problems we have been dealing with for some time. Namely, the successful longevity of the program, reducing Specialist turnover, more equitable support and compensation for Specialist, more timely reports, summaries and other publications, more timely & usable data provided to the department as well as a clearer understanding of:

- The level of financial support from stakeholders
- Service provided to cooperators
- “General Extension work” required of specialists
- Tax Preparation Policy

After much discussion of the issues presented in the review document, the group came up with what we all believe is the beginnings of a plan that could resolve many of these issues.

We will be giving an oral report of the workings of this group at your area annual meetings. All members are welcome to see a copy of the external review report. If you are interested please ask your specialist for a copy. The mission of the external review is to make the KFBM program better for everyone involved: cooperators, the college, and the specialists.

Welcome Evan!

By Dr. Lynn Robbins

Again we would like to welcome a new specialist to the KFBM program. Evan Conrad joined the staff in the Hopkinsville office during the first week of October. Evan received his Bachelors and Masters degrees from the University of Kentucky. Evan is newly married (Aug. 11th) and grew up on a tobacco, cattle, and alfalfa farm in Grant County, Kentucky. We welcome Evan to the program and look forward to working with him (hopefully for many years).