Farm Savings Account Workshop

The Economic Research Service (ERS) had a 1-day workshop on farm savings accounts and their potential to assist farmers in managing their variability in farm income at the ERS headquarters on June 2, 2003. The workshop provided an opportunity to learn about the experiences of other countries that already utilize such accounts and to interact with those currently conducting research on the potential role in the U.S. of farm savings accounts as part of the farm safety net. The workshop was cosponsored with the Risk Management Agency and the Farm Foundation.

The Role of Farm Savings Accounts in Managing Income Variability
Jeff Bazille, Risk Management Agency (RMA)

Jeff Bazille of the Risk Management Agency outlined RMA's interest in farm savings accounts in the context of the RMA mission to help stabilize agriculture through a sound system of crop insurance and other risk management products and services. He discussed the agency's interest in products and tools that will assist producers in determining the financial impact of various risk management strategies, including farm savings accounts, and in products and programs for producers not covered by existing programs. He also described the collaborative research on farm savings accounts and risk management tools ongoing with ERS.

Savings and Off-farm Investment of Farm Households
Ashok Mishra, Economic Research Service

Ashok Mishra from ERS provided an overview of the differences in savings and off-farm investments of farm households for various sizes and types of farms. Off-farm investments, including savings accounts are an important part of the farm household's portfolio. Based on a 1999 ARMS survey of farm savings and investment behavior, Ashok indicated that the ratio of off-farm savings and investments to total assets had increased from 18 % in 1992 to 31 % in 1999. He also suggested that farm households were more likely to invest off the farm as their level of off-farm income and total household income increased. Small, diversified farmers were also more likely to have off-farm savings and investments.

Canada's Experience with Net Income Stabilization Accounts

Greg Strain, Agriculture and Agrifood Canada

Greg Strain of Agriculture and Agrifood Canada described Canada's experience with the Net Income Stabilization Accounts (NISA) and their proposed replacement. Developed in 1991, NISA allows producers to establish savings accounts that are subsidized with matching government contributions and an interest rate bonus on account balances. Deposits can be withdrawn only if farm or household income drops below certain thresholds. While NISA fund balances grew considerably over time, there was a tendency to leave money in the accounts. For small and low performance farms, the safety net was stabilized but at relatively low levels. Greg suggested that these as well as other perceived shortcomings of the accounts led to an evaluation of the NISA program and the development of a replacement program. The proposed replacement program would shift a larger role to the government in the face of large losses. However, government funds could only be accessed when the need is established, thus preventing the type of account balance built up that occurred under the NISA program.

Australia's Experience with Farm Management Deposits Program Accounts
Trish Gleeson, Australian Bureau of Agricultural and Resource Economics (ABARE)

Trish Gleeson (ABARE) provided an overview of Australia's Farm Management Deposits Program. Under the program, farmers receive an income tax deduction for deposits but are taxed when the funds are withdrawn. The minimum deposit is $1,000 while the maximum amount that can be on deposit is limited to $300,000. Farmers with off-farm income in excess of $50,000 are not eligible for the program. Trish indicated that since its introduction in 1999, the number of farmers and average deposits have grown. However, despite marginal income tax rates approaching 50 percent, only about 15 percent of all farmers currently participate in the Farm Management Deposits Program.

Farm Savings Accounts and Variability in Farm Income:
Analysis of Farm Management Panel Data
Paul Ellinger, University of Illinois; *Brent Gloy*, Cornell University; *Jeff Williams*, Kansas State University; *Andy Swenson*, North Dakota State University

One of the primary goals of farm savings accounts is to provide farmers with a tool to help them manage the variability in farm income by contributing to an account in high income years to build a reserve to draw upon in years when farm income is low. Panelists in this session utilized farm management panel data to evaluate variability of farm income for various farm types and sizes and the potential of various farm savings account programs to smooth the variability in farm income.

Andy Swenson of North Dakota State provided an overview of an analysis of a 5-year panel (1997-2001) of North Dakota farms. These farms received most of their income from farming with an average net cash farm income of about $34,000. The average variation from the mean was over $23,000. However, Andy found few differences in farm income variability by size or type of farm.

Brent Gloy of Cornell University discussed the results of an analysis of a 5-year panel (1997-2001) of New York dairy farms. Brent found large amounts of variation in net farm income. An evaluation of the potential benefits from FARRM and counter cyclical savings accounts suggested that almost all farms would be eligible to contribute to a savings account at least once during the 5-year period with over half of all farms eligible to contribute in all 5 years. However, tax benefits under the FARRM account proposal were relatively modest for most farms raising potential questions regarding the actual level of participation under a FARRM account or similar program relying solely on tax incentives to encourage participation.

Jeff Williams of Kansas State University summarized an analysis of 1149 Kansas grain and livestock farms for the 1997-2001 period. Average net farm income was about $52,000 with a range from $46,000 to $58,000. Results from an evaluation of FARRM and counter cyclical account proposals suggested that a majority of farms would be eligible for both plans with a slightly larger share being eligible under the counter cyclical proposal. In both instances, eligibility and amount of deposit increased with the size of farm. Both programs demonstrated some potential to stabilize farm income.

Paul Ellinger of the University of Illinois presented results of an analysis of 2,104 Illinois grain farm for the 1997-2001 period. These farms averaged about $253,000 in gross farm income and about $38,000 in net farm income over the 5-year period. Paul documented the importance of government payments relative to net farm income and highlighted the variability of net farm income.

Perspectives on a U.S. Program
Ron Durst, Economic Research Service

Ron Durst provided an analysis of the two leading proposals for farm savings accounts in the U.S., Farm and Ranch Risk Management (FARRM) and Counter-Cyclical Savings Accounts. While these plans utilize very different incentives and eligibility criteria, the share of farmers eligible to contribute and the potential level of deposit accumulation are very similar. While the analysis suggested that most commercial farmers would be eligible to participate, only a small number of farmers could accumulate meaningful balances. The analysis also suggested that while the use of the tax code can be a convenient method of administering the program, the selection of a particular tax-based measure of income can have a significant impact on eligibility and the potential size of deposits.

What We've Learned. What's Next?
Barry Goodwin, Ohio State University
Steve Halbrook, Farm Foundation

Barry Goodwin and Steve Halbrook provided an overview of the main points discussed during the workshop and identified various unanswered questions and issues for possible additional research on farm savings accounts.