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# INCOME VOLATILITY AND SOCIAL SECURITY: UNDERSTANDING FARM LOSSES AND THEIR IMPLICATIONS

*Research conducted by Marissa Eckrote-Nordland, University of Wisconsin-La Crosse  
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## **Income volatility and Social Security: Understanding farm losses and their implications**

Farmers face a level of income volatility that is not seen in other occupations. This makes retirement planning especially difficult, specifically ensuring that they have accrued enough credits to be eligible for Social Security benefits.

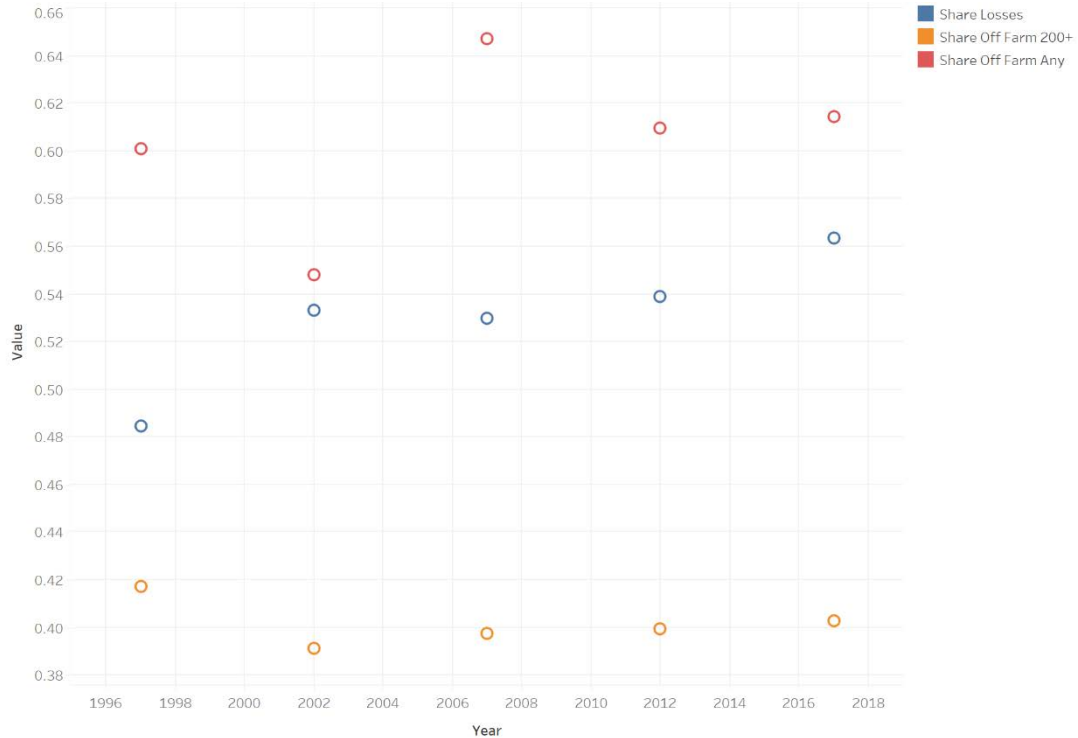
### **Estimating the Share of Farms Eligible for the Farm-Optional Method**

Farm and ranch operators in the United States are an economically vulnerable group. Many family-owned farms without younger family members interested in farming face difficult retirement decisions. In addition, unlike other categories of self-employed individuals, farmers have more discretion over whether and when to pay Social Security taxes due to the “farm optional method” (FOM) of self-employment taxes. The FOM allows farmers who have negative or very small profits to opt-in and pay self-employment taxes when they typically would have little to no self-employment tax liability. By opting to use the FOM, these farmers can accrue quarters of Social Security-covered work that contributes towards eligibility for Old Age, Survivors and Disability Insurance (OASDI).

This research longitudinally linked two decades of USDA Agricultural Census Data on the share of farms in a county that incur losses and the share of farm owners in a county working off-farm. Using this dataset upper and lower bounds on the share of farms in each county in each survey wave that may have been eligible to use FOM when filing their self-employment taxes were estimated.

### **Many Farmers Incur Losses and Work a Second Job**

In the time periods studied between 48% and 57% of all farms in the United States incurred a loss. In addition, between 54% and 62% of farmers reported working at least one day at a second job. These factors combine to add to the stress faced by farmers.



## Geographic Trends Exist in the Share of Farms Estimated to have been Eligible to use the Farm-Optional Method

The share of farms across the country estimated to be eligible for the Farm-Optional Method stays roughly constant over time, however there is geographic variation in which states have the largest share estimated to be eligible. Arizona is found to be the most frequent state to have one of the largest bounds, whereas Iowa consistently has one of the lowest estimated bounds.

## Implications

- Farmers are frequently incurring losses and working second jobs
- Educating farmers on FOM may help them make decisions on if they want to work a second job to accrue credits for OASDI eligibility
- Differences across counties in the share of farms estimated to be eligible to use the FOM can be used to help focus outreach on areas that may benefit most from it

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