

Curriculum Reference

Painter

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September 16, 1965

Mr. G. R. Cochran, State Supervisor  
Agriculture Education, Voc. Div.  
Centennial Building  
653 Cedar Street  
St. Paul 1, Minnesota

Dear Mr. Cochran:

Enclosed is the curriculum material you asked for at a recent coordinator's meeting. I took it directly from three newsletters that I prepared last summer and fall (1964).

If there are other reports you want for your files, let me know. I think that you have a copy of the manual on farm accounting. I will not get the work on "Interpreting Farm Analysis Reports" completed much before January 1. It has turned out to be a more ambitious undertaking than I had realized.

Respectfully yours,

Charles W. Painter

CHP:hb

Enc:

PERPETUATING THE FARM BUSINESS

Mailed to Mr. G. R. Cochran 9/16/65

(A Suggested Teaching Unit for Adult Agriculture)

Charles M. Painter - Austin Area Vocational-Technical School

1964

In a series of ten two-hour meetings on "Perpetuating the Farm Business" the local instructor should be able to conduct five or six of these himself. The skeleton outline here is but one possibility of many that instructors might wish to follow.

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|------------|---|
| Lesson I   | <p>Income, Family Living and Family Protection - by local instructor</p> <p>What farm families spend, need to spend and what is available for spending.</p> <p>The quality, quantity and organization of the farm business</p> <p>Can credit contribute to a more desirable situation? How?</p>   |
| Lesson II  | <p>Family Protection - by local instructor</p> <p>Theory of insurance - why have?</p> <p>Mortality tables</p> <p>Kinds of insurance</p> <p>Policies</p> <p>Coverage and exemptions</p> <p>Loan and settlement values</p>  |
| Lesson III | <p>Adequate Family Protection - by guests (insurance &amp; social security)</p> <p>Review of insurance needs</p> <p>Protection provided</p> <p>Cost of protection</p> <p>Minimum needs and maximum that can be afforded</p> <p>Supplementing with social security</p> <p>Protection of the farm business through term insurance or insured loan</p> |
| Lesson IV  | <p>Adequate Retirement and Adequate Estates - by instructor</p> <p>Provisions for wills, insurance beneficiaries, requests, trusts, etc. for young families</p> <p>Provisions for older families</p> <p>Sources of retirement income</p> <p>Sources of survivor income</p>  |
| Lesson V   | <p>Financing the Young Farm Family - by guest (credit)</p> <p>Use of records and farm analysis</p> <p>Farming with partner</p> <p>Farming alone</p>   |
| Lesson VI  | <p>Legal Problems in Protecting Farm Families and the Farm Business - by guest (legal)</p> <p>Partnerships and corporations</p> <p>Problems in handling estates</p> <p>Legal fallacies and misconceptions</p> <p>Alternatives and factors in determining choices</p>  |

Lesson VII Typical Situations - by instructor

Explore two or three situations in the general geographic farming area

The case must not be revealed

Farm analysis information covering at least three years should be available

Identify the problems relating to farming efficiency, credit needs, insurance needs, and legal problems

Select one situation for intensive study

Lesson VIII The Case Farm - by instructor

Identify credit, protection and legal problems

Proposed solutions from the group

Lesson IX. The Case Farm - by guests (legal and insurance)

Same as above except from resource personnel

Lesson X Panel Discussion - by instructor, farmer, insurance, legal & credit

First part of meeting covered by review of problems in group sessions with resource person in each group

Panel discussion last half of the period

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Lesson I - Income, Family Living and Family Protection

A. What are family needs and what do they cost?

1. What are living and personal needs?

a. Estimates from families who have not kept complete household records. Use the household and personal records pages in the Minnesota Farm Account Book as the basis for a family budget

b. Review of accounts of those families having had one or more years of household records

c. Study the household and personal expenditure tables found in various farm management reports

d. Show a typical breakdown expenditure including food and meals, operating and supplies, furnishings and equipment, etc.

2. What are family protection needs?

a. Minimum protection and cost

(1) Social security

(2) Life insurance

(3) Accident and health

(4) Personal liability

b. Risks that may need to be assumed

B. What is the family source of income?

1. Labor - operators labor earnings, family labor, non-farm labor

2. Interest on equity in farm business

3. Emergency sources

a. Depreciation - failure to replace or provide for replacement

b. Delayed upkeep and repair

c. Unpaid interest on indebtedness

d. Inflation - borrowing more money on increased land values

- C. Based on hourly returns what will my labor earnings be?
  1. See page 2 - July 1964 newsletter (pp. 2-4) to determine labor earnings
  2. Will (or does) my return to capital and family labor cover living, personal and protection needs of the family?
  3. What are my goals for return to capital and family labor?
  4. What is a realistic estimate of return to capital and family labor?
    - a. In average years?
    - b. In a poor year?

## Lesson II - Family Protection

- A. Life insurance and social security
  1. Mortality tables - obtainable from insurance agents, some instructors. What is the death expectancy per 100,000 population at different ages?
  2. Reasons for life insurance
    - a. Protection of the family in case of loss of the family income provider (may be both husband and wife). This is generally considered to be the main purpose of life insurance.
    - b. Investment - the rate of return for that portion the premium over and above death expectancy is about the same as most low interest investments such as certificates of deposit, government bonds, etc. Advantages are that it is systematic saving. Disadvantages are that inflation can dissipate savings and that money is needed for business purposes.
  3. Kinds of life insurance
    - a. Term insurance provides maximum protection at minimum cost. There is no benefit of saving, but for a young man trying to build up an equity in a business it has many advantages. It may be converted into a life or endowment policy if the provision is made at the time of purchase. When used to cover a loan term insurance can be set up on a diminishing value payment plan.
    - b. Another type of term insurance is the insured loan. This has one advantage over the term insurance in that health and age are not limiting factors. The disadvantages are that the insurance settlement goes only toward the payment of the loan and the cost is much higher for a young person than the regular term insurance.
    - c. Straight life insurance is next to term insurance for economy. It is payable for life and may be difficult to maintain in late life. With dividends credited to the policy it will build up a substantial benefit after a long period of time.
    - d. Limited pay life insurance is of advantage to those who wish to pay up their policies while their earning capacity is high. If a man took out a thirty year pay policy at twenty-four, it would be paid up at fifty-four and remain in force until death. The shorter the term of pay, the higher the rate.
    - e. Endowment insurance combines protection and savings. It is the most costly. It matures to face value at the end of the pay period.
    - f. Combination plans are common and are usually designed to give the policy holder the kind of protection he most needs. The family plan is an example. This provides varying death benefits for all members of the family and an income benefit for a widow and dependents. Such a policy would cover such emergencies as funeral expenses for any member of the family, a larger lump sum for the loss of the family provider plus income during dependency. Funds for educations are sometimes provided.

4. Social Security is usually an important supplement to life insurance. When social security is carried long enough to be active it provides much security for a widow and surviving children. It is, of course, also set up for life income after age 65. The supplementing advantage to a surviving widow and five children is that while the children are under eighteen she will receive \$232 per month. When the last child reaches eighteen, she will receive no income until she herself reaches age 62.
5. What life insurance plan for a young farmer? Each situation will be different, but the following will serve as a guide
  - a. Life insurance should be for protection and cover emergencies in case of death of one or perhaps each member of the family
  - b. Term insurance will be the most economical for covering the major indebtedness
  - c. The need for a family income plan will probably depend upon whether social security is active. If active, a surviving widow would have from a, b, and c above: life insurance; the rent income from operation of, of income from sale of, the farm; and monthly social security payments if any surviving dependent was under eighteen.
6. Life insurance policies
  - a. What are coverages and exemptions?
  - b. What are rates per \$1000 coverage at different ages? Compare policies
  - c. When does the policy have a cash surrender value?
  - d. Options of settlement on a policy in force; surrender or loan value, paid up insurance, extended insurance
  - e. Application of dividends

#### Health and Accident

1. Protection needs include hospitalization, major surgery, loss of time and permanent injury
  2. Hospitalization and surgical
    - a. May be combined or separate
    - b. Hospitalization at fixed daily rate
    - c. Surgical at set allowances
    - d. Limited to maximum benefits
    - e. Initial cost (cash amount) deductible or no deduction
- C. Liability, Property Damage, etc.
- D. Fitting protection into the family budget
1. Labor earnings
    - a. Needed for living and personal
    - b. Needed for debt retirement
    - c. Available for protection
  2. Insurance and protection program (from 1c)
    - a. Yearly cost of social security
    - b. Cost of life insurance
    - c. Cost of medical and hospitalization
    - d. Cost of other protection

Lesson III - Guest Instructors from Insurance Agencies and Social Security.  
Suggestions to follow in the October newsletter

A. Sources of information

1. Contact local insurance people for assistance in setting up lesson outlines. As a neutral, the vo. ag. teacher should try to determine what is to the best interest of the individual farmer. Life insurance is becoming more and more a professional service and most insurance people will want to know how they can be of greatest service to farm families
2. July (1964) newsletter
3. Pilot outlines prepared by me in October, 1962
4. Group Health Kit from Group Health - 2500 Como Avenue  
St. Paul 8, Minnesota  
Includes "Savings and Life Insurance Program of Fred Sampson Family,  
Womans Division, Institute of Life Insurance -- 488 Madison Avenue  
New York 22, N.Y.  
"Sharing the Risk" - Educational Division, Institute of Life Insurance
5. Handbook of Life Insurance (separate from Group Health Kit)  
Institute of Life Insurance

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Lesson III - Guest Instructors from Insurance Agencies and Social Security

I. Briefing of Resource Persons

A. Outlines of material covered

1. Points covered on income and protection in Lesson I
2. Points covered in Lesson II
  - a. Life insurance
  - b. Social security

B. Insurance as a service and profession

1. Fitting the insurance program to the situation
  - a. Minimum protection needs
  - b. Protection from loss of the income provider
  - c. Protection from loss of the farming unit
  - d. Age of the farm operator
  - e. Family situation
2. Insurance as a part of a total protection program
3. a. When supplemented with social security  
b. When supplemented with farm property or other investments

II. Presentation

A. The modified panel - if both insurance and social security representatives are used at the same meeting. Alternative plans

1. Provide for presentation of 20 to 30 minutes for each guest
2. A questioning panel of three to five interested members might provide the stimulus for an additional 40 to 60 minute discussion
3. After brief presentations a panel including the instructor, an interested member and the guests would discuss phases of protection through insurance and social security

B. Presentation with questions and answers

1. Prepared outlines by the speaker would be helpful
2. a. Give out at the previous meeting  
b. Written on blackboard or duplicated for the meeting
2. Questions raised at previous meetings will give continuity to the course
  - a. May be suggested at the previous meeting
  - b. May be prepared by the instructor after the previous meeting

3. Example Situations (discussed in advance with resource persons)
  - a. Protection plan for a 36 year old farmer covered by social security. Owes \$40,000 on a contract for a farm worth \$50,000 on the market. Owes \$8,000 on chattels valued at \$22,000. The children are 11-8-4.
  - b. Protection plan for a 25 year old farmer with one child. Owes \$6,000 on \$12,000 worth of personal property. Rents 200 acres of good land on a crop-share basis. He has farmed three years having previously gone to school and acquired personal property on his fathers farm. He has a \$2,000 twenty year endowment policy taken out by his father when he was sixteen. Neither the wife (23) or the daughter (18 mo.) are covered. Outline a practical family protection plan.
  - c. Other situations provided by the instructor or resource person

#### Lesson IV - Credit for the Farmer

##### I. Kinds of credit needed

- A. As to period of repayment
  1. Long term credit
  2. Intermediate credit
  3. Short term credit
- B. As to use
  1. The purchase of real estate
    - a. Mortgage with deed required
    - b. Contract for deed
  2. The purchase of productive capital
    - a. Livestock
    - b. Machinery and equipment
  3. Operational expenses
    - a. Feed, seed and fertilizer
    - b. Power expenses
  4. Personal and emergency
    - a. Grocery and other household
    - b. Insurance and other protection
    - c. Auto, household appliance, vacation and travel
    - d. Illness - hospitalization, medical, loss of work

##### II. Uses of Credit

- A. For high return - increased livestock and crop production efficiencies as fertilizers, feed purchased for a critical market period, good seed stock, labor for critical periods
  1. Some investments yield a high return often more than doubling the investment
  2. The farm operator must be in a position to take advantage of high return investments
- B. For fair return - depending on the price situation - female breeding animals such as dairy cows, ewes, sows, feeding animals, additional land to provide an economic unit, equipment to provide maximum labor output.
- C. Low return - most land investment, most machinery and building investments, most investments in purebred female breeding stock
- D. No return - borrowed money for residence, auto for personal use, groceries, medical expenses, vacations

### III. Handling Credit

- A. Borrow at a reasonable rate of interest -- many people pay 30% annually for money borrowed when it is seldom necessary to pay more than 7%
  - 1. Interest should be paid only on remaining balance
  - 2. Avoid unnecessary carrying charges
- B. Limit all borrowing to one or two sources -- real estate and non-real estate credit
  - 1. Carry charge accounts for no longer than 30 days. These may include groceries, feed, fuel, credit card accounts, etc.
  - 2. Borrow money from bank or similar lending agency for all non-real estate indebtedness incurred (accounts over 30 days)
  - 3. Normally, real estate should carry as much of the total debt load as possible
- C. The operator must have adequate equity in his farm business
  - 1. Few operators should attempt to farm with less than a 35% equity in their business
  - 2. The good operator may find it to his advantage to use more credit when his equity becomes greater than 65%
- D. Plan ahead for credit needs
  - 1. Borrow slightly in excess of anticipated needs
  - 2. Set due date when income will be adequate to meet the payment
    - a. Avoid being forced to sell crops or productive livestock at a sacrifice to the business
    - b. Assume that the note can be renewed if progress has been shown
- E. Build up a high credit rating
  - 1. Meet obligations on time or make arrangements with creditors when emergencies make this impossible
  - 2. Get releases when selling mortgaged property (law requires this)
  - 3. Purchases requiring additional borrowing should be discussed with creditor
  - 4. Show progress in building up net worth

### IV. Determining Ability to Repay Loan (review pp. 2 & 3 of July, 1964 newsletter)

### Lesson V -- Financing the Young Farm Family (guest or guests from bank, PCA or FHA)

- I. Briefing -- do not use more than two resource persons for this meeting. Go over outline of previous meeting. Discuss earning capacities as determined from pp. 2 & 3 -- July, 1964 newsletter with resource persons
  - A. Minimum standards for business to retire loan principal
    - 1. Size of business and relation to credit
    - 2. Quality of business
  - B. Extent of credit needed
- II. Credit problems to be discussed
  - A. Obtaining credit
    - 1. Sources of credit
    - 2. Sources of security
      - a. Insurance
      - b. Chattel property
  - B. Loaning money
    - 1. Extent of credit
    - 2. Interest rates, mortgages, notes, renewing notes, etc.
    - 3. Credit policies of the institution
  - C. The creditors responsibilities and restrictions
    - 1. Banking laws and regulations
    - 2. Credit laws
  - D. Questions and answers
    - 1. From pertinent questions raised at the previous meeting
    - 2. Prepared by a committee of three
    - 3. From the meeting -- spontaneous

## Lesson VI-Planning for Retirement and Transfer of Farm Property

### I. Sources of income for the retiring farmer

- A. Social Security
  - 1. Income after age 65
  - 2. a. For husband and wife
  - b. For husband
  - c. For surviving spouse
  - 2. Limitation of earnings
- B. Life Insurance
  - 1. May buy annuity
  - 2. Income for surviving spouse in case of death
- C. Investments
  - 1. From sale of personal property
  - 2. From sale of farm real estate
    - a. Interest
    - b. Payment on principal
  - 3. From real estate rental
  - 4. Interest, dividends, growth on other investments
- D. Earned income

### II. Ways of transferring the farm business

- A. Limited partnerships
  - 1. Property acquired through supervised farming programs
  - 2. Partial ownership - may or may not include renting of additional land
- B. Partnership
- C. Leasing the farm
  - 1. The 50-50 livestock share arrangement
  - 2. Crop share
  - 3. Cash rent
- D. Farm purchase
  - 1. The contract for deed
  - 2. Sale by deed - with or without mortgage

### III. Early planning - an example problem

A 38 year old farmer has two sons, 15 and 11, and two daughters, 12 and 6. All members of the family are at present interested in farming. He wants to plan now for including one or possibly both of his sons in the farming operation. Market value of the farm is \$50,000. Total debt, \$18,000. Market value of personal property, \$25,000. Return to capital and family labor for the past five years is \$7,200, \$11,000, \$8,600, \$7,700 and \$10,800.

He has a \$15,000 term insurance policy and \$8,000 straight life policy, \$2,000 straight life policy on his wife and \$2,000 thirty year endowment policies on each child. Consider steps he should take now to expand his business. Consider how the sons should start building up an equity in the business. Will it be easier or more difficult if both sons want to farm? If a daughter marries a man who wants to farm? Consider that in twenty years the farmer will be 58, still 7 years short of 65. The children will be 35, 32, 31 and 26. Three of them will be of age in ten years.

### IV. Retirement and transfer planning delayed until near retirement

- A. Problems
- B. Possible solutions
  - 1. Prospective operator may have difficulty in changing occupation
  - 2. Equitable distribution of estate may be difficult

## Lesson VII - Adequate Retirement and Adequate Estates

- I. Young Family estates
  - A. Sources of estate property
    - 1. Insurance - straight life, term, etc.
    - 2. Personal property - how is share established? Is basis legal?
    - 3. Share of real estate - legal basis
  - B. Heirs rights to other inheritances
- II. Estates of established farmers
  - A. Real estate and other farm property
    - 1. Expenses to be met
      - a. Taxes, death, inheritance, capital gains
      - b. Probate costs
      - c. Medical and funeral
    - 2. Protection of heirs
      - a. The operator of the farm
      - B. Heirs not involved with the farm operation
  - B. Other estate property
    - 1. Mortgages and contracts
    - 2. Life insurance
    - 3. Residence
    - 4. Investments
- III. Rights of Heirs
  - A. Widow's right of 1/3 of property regardless of will; homestead rights
  - B. Without wills (intestate)
    - 1. Widows share equal to any child - 1/2 to widow, 1/2 to one child
    - 2. Widow's share is 1/3 if more than one child - as 1/3 to widow; 1/6 to each of four children

## Lesson VIII - Legal Problems in Farm Family Businesses and Estates

Guest speaker should be an attorney. Suggested briefing in the Nov. newsletter

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## Lesson VIII - Legal Problems in Farm Family Businesses and Estates - Guest Attorney

- I. Briefing - The resource person (attorney) should be carefully selected. Some attorneys are specialists in patents, some in real estate titles, some in corporate law, etc. Some attorneys may be brilliant in their specialty, but know much less than most vocational agriculture teachers about some of the legal implications of farm management. The guest should be made familiar with what will be covered several weeks in advance and what is expected at the meeting. Before he is asked it should be determined whether he feels qualified to discuss the material you have outlined for the meeting. Get suggestions from the resource person relative to this and the meetings preceding it.
- II. Farm business arrangements
  - A. The partnership and its legal aspects
  - B. The farm lease
    - 1. Legality of leases
    - 2. Ownership of property under certain landlord-tenant arrangements
      - a. Livestock and other personal property
      - b. Real estate improvements
  - C. The corporation
    - 1. How farm businesses may be incorporated
    - 2. Advantages and disadvantages

2. Advantages and disadvantages
  - a. Under what conditions might incorporation be advisable
  - b. Under what conditions would it be inadvisable
3. How the corporation operates
4. Importance of superior legal assistance
- D. Contracts for deed
- E. Ownership of real estate
  1. Designation - corporation, tenancy in common, joint tenancy
  2. Mortgages and liens

### III. Property Inheritances

- A. Wills
  1. Importance - who should have and what should be contained
  2. Legal aspects
  3. Advantages in estate planning
- B. Hazards of intestate properties
- C. General procedures in estate settlement
- D. Costs of estate settlement

Lesson IX - Typical Situations Found in Farm Businesses (instructor will conduct this discussion, but may have guest resource people observing)

#### I. General situation in the community

- A. The farming arrangement
  1. Are rental arrangements equitable and legal? Do they provide adequate Protection?
  2. Do owners have legal possession of property?
- B. Preparation for transfer of property?
  1. Is property ownership legally identified?
  2. Do wills provide for the desired transfer?
  3. Is the financial structure sound?
    - a. Does it make transfer possible?
    - b. Will all heirs receive fair treatment?
- C. Case situations (typical of the community but outside the community to prevent recognition)
  1. Earning capacity
  2. Legal arrangement (present)
  3. Situation as to estate planning
    - a. Insurance
    - b. Farm property
    - c. Indebtedness
    - d. Non-farm assets

#### II. Introduction of the example farm situation

- A. The Thor and Ole Amskavarden problem
  1. This has the advantage of analysis at previous workshops
  2. The instructor should call for a few suggestions from the group after handing out the problem for review.
- B. Find a problem to fit the local situation
  1. Considerable extra work would be necessary to prepare a new problem
  2. The problem would be fresh and might stimulate the instructor
  3. The problem should come from a farm outside the local area

## Lesson X - Analysis of the Example Situation (guest resource persons - legal & insurance)

### I. Procedure

- A. Brief discussion of the problem
- B. Divide class into two groups
  - 1. Each group to spend half of the period with each resource person
  - 2. An attorney will cover legal aspects. An insurance agent will cover protection aspects
  - 3. Assign chairmen and reporters for each group

### II. Previous preparation

- A. Discussion of the problem with resource persons
- B. Check important points that should grow out of discussions

## Lesson XI - Summary Meeting

### I. Reports from Groups

### II. Panel Discussion

- A. Discuss implications ~~56~~ the problem
- B. Personnel of panel will be instructor and four or five members including the two resource people, one group chairman or reporter and one credit representative

### III. Reactor Panel or Committee of Farmers to Present Problems and Raise Questions after the Panel Presentation

(The unit on "Perpetuating the Farm Business" should be extended over two years if the instructor is limited for either time or resource persons. Quality is more important than quantity in offering this unit)