

Farm Savings Accounts for Specialty Crop Growers*

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A study was conducted to examine the potential benefits of establishing government subsidized farm savings accounts for specialty crop growers. The primary goal of the project was to determine whether farm savings accounts would provide specialty crop growers with a useful tool for managing financial risk. The project examined how various features of the farm savings account proposals ultimately impacted the benefits that specialty crop growers would receive from the accounts.

Two specific types of farm savings accounts, counter-cyclical farm savings (CC) accounts and farm and ranch risk management (FARRM) accounts, were evaluated. Both accounts require that the farmer deposit funds into the account. The study evaluated the eligibility of specialty crop growers to contribute and withdraw funds from CC and FARRM accounts as well as how the use of the accounts would impact farm income variability.

Under the counter-cyclical savings accounts program, eligibility is based upon gross income, the government would match the farmer's deposit up to \$5,000, and farmers could withdraw when gross income fell below a specified trigger level. For FARRM accounts, eligibility to participate was based upon positive net income and deposits were not matched, but rather were tax deferred. Withdrawals from the accounts were evaluated using various historical gross income trigger levels.

The study used data collected by Lake Erie Grape Farm Cost Study (LEGFCS) to analyze the proposed farm saving account programs. The five year panel data set contains the financial records of 32 grape farms that had completed the survey for each of the years 2000 to 2004. These farms specialize in the production of native variety grapes (Concord and Niagara) which are used for juice. The data collection was based upon tax information on the growers' 1040 Schedule F. The data are not necessarily representative of all types of specialty crop production or of the "average" specialty crop operation. However, the data should illustrate the relative income variability faced by a type of specialty crop growers and potential for farm savings accounts in addressing this variability.

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The study produced a number of findings that illustrate some of the potential benefits and challenges of developing a farm savings account program for specialty crop growers. For the group of farmers studied, the positive net income contribution requirement for FARRM accounts was more restrictive than the \$50,000 gross income requirement for CC accounts. Additionally, because the benefits of the FARRM account are based on tax deferral, fewer farms would have incentives to participate as opposed to CC accounts. Based on farm income alone, nearly half of the farms in the study were in the 10% or lower marginal federal income tax bracket. Similarly, larger and more profitable farms would receive the greatest benefits from the FARRM account program.

On average, the size of farmer deposits to both types of accounts were similar, but when the government match is considered, the average CC account balance was larger than the average FARRM account balance. The ability of farms to make withdrawals from the account is very dependent upon the nature of the withdrawal provisions. For instance, if withdrawal triggers are not indexed to allow for growth, few farms will be able to make withdrawals. Restrictive withdrawal rules will significantly reduce the appeal of the accounts as a risk management tool.

The accounts showed promise in their ability to reduce income variability. However, restrictions on the size of deposits will limit the accounts' ability to completely mitigate income variability. Many farms will still experience considerable income variability. The accounts also appear unable to handle yearly back-to-back adverse financial outcomes. Unless larger subsidies are offered, savings account programs are unlikely to provide a complete risk management solution for specialty crop growers. Additionally, for widest appeal the program should combine both government deposit matching and tax deferral of deposits.