Employed in agriculture? Start thinking about retirement now

Farmers should consider which plan is best for them and their employees

By Jacob Klaudt, K-State Research and Extension news service

MANHATTAN, Kan. — Kansas’ agricultural producers have an average age of 58.2 years old, according to the USDA’s 2022 Census of Agriculture. The same group of agriculturists have spent an average of 28.5 years working in the industry.

With many Kansans in agriculture nearing the end of their careers, Kansas Farm Management Association economist Chelsea Plummer recommends that producers open a retirement account sooner, rather than later.

“I think the Traditional and Roth individual retirement arrangements (IRA) are known very well to most people,” she said. “Still, I have seen the Owner K, SIMPLE and SEP plans work in different scenarios around the state.”

Traditional IRA

According to Plummer, anyone who has earned income becomes eligible for a Traditional IRA. This account requires a $7,000 contribution limit per year; however, anybody 50 or older can contribute an additional $1000.

The Traditional IRA is a tax-deferred account designed specifically for retirement savings. Financial analysts note that the advantage of this type of account is that contributions may be deductible, and the amounts are not taxed until distribution.

Producers considering this option might choose to open this account in conjunction with other employer-sponsored retirement plans.
Normally, the individual’s workplace does not have to have a retirement plan in place for the employee to be able to start funding your retirement. If the employee has a SIMPLE or SEP plan, they can still put money into an income-dependent account like a Traditional IRA.

Roth IRA

Roth IRA accounts – like the Traditional version regarding its limit and deadline – was created as another alternative for making non-deductible contributions. The Roth IRA is a little different, however, in that it allows for after-tax contributions with the potential for tax-free income in retirement.

Non-working spouses of account holders may chip in to this account if one member of the household receives taxable compensation.

SIMPLE IRA

Employers looking to add to their workers’ retirement funds may opt for a Savings Incentive Match for Employees, or a SIMPLE, plan.

The SIMPLE IRA is a workplace retirement plan that authorizes employees to contribute to the plan through salary deferrals, and the employer is required to make deposits to the plan through a matching or non-elective contribution.

Employers may reserve the right, however, to restrict participation to only employees who have received at least $5000 in compensation during any two previous years of employment.

Simplified Employee Pension IRA

Another option for producers wanting to start retirement plans for their employees includes a Simplified Employee Pension (SEP) IRA, which must be set up before a respective year’s tax-filing deadline.

SEPs permit the employer to impart tax-deductible dollars to the owners and the employee’s retirement accounts. Each eligible employee generally gets the same percentage of their compensation amount.

Employers have the option to make annual deposits into these accounts for up to 25% of the worker’s yearly salary, though this aspect is only available with the SEP IRA.

One potential advantage of this type of plan: If farmers have a bad year and don’t want to contribute 25% in a given year, they have the flexibility not to.

Owner K Plan

For self-employed producers and their spouses who have no employees, the Owner K plan might be the best option for them to help save for retirement.

Owner K plans are a 401(k)-profit sharing plan designed to let business owners without employees defer salary for retirement savings. This option can reduce the business owner’s tax burden because of the availability of pre-tax contributions.
Participants must be 21 years old to be eligible for the Owner K plan. Accountholders may place up to $23,000 per year into these accounts; producers 50 or older may put in an additional $7,500.

Plummer suggests Kansas farmers and ranchers consult a trusted accountant or financial advisor to determine the best course of action for retirement.

-30-

FOR PRINT PUBLICATIONS: Links used in this story
USDA Census of Agriculture, https://www.nass.usda.gov/AgCensus/

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