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SOCIAL SECURITY, which at present covers about 700 thousand "regular" hired farm workers, has been extended to cover an estimated 2.1 million additional agricultural workers and 3.6 million farm operators. After the President signs the bill, Federal Old Age and Survivors' Insurance as it is more correctly termed, will be compulsory for all workers in the above groups.

Previously only agricultural laborers who worked most of the year for a single employer were covered. Under the new law all farm workers who are paid at least $100 in cash wages by any one employer in a calendar year will be covered. The only group of hired workers not covered are those who migrate rapidly from one farm to the next.

Payroll taxes of 2 per cent for hired workers will be paid by both the employer and the employee on incomes up to $4,200. By 1975 this rate is to be increased to 4 per cent each. Farm operators who have earnings of $400 or more will contribute 3 per cent of their net earnings up to $4,200. By 1975 these contributions are to be raised to 6 per cent. The contributions will be computed and payable along with personal income taxes.

Benefits under the social security program depend upon the average monthly wage and the length of period in which contributions are made. These are converted to quarters of coverage. Six quarters of coverage provide minimum benefits while with 40 quarters of coverage an individual becomes "fully insured." Depending on the number of quarters of coverage monthly retirement incomes per annuitant at age 65 will be from a minimum of $30 to a maximum of $108.50. Maximum family benefits will go as high as $200. For a widow with children under 18 years old benefits may go as high as $140 monthly but are less if there are no children.

IMPACTS of the program on saving-spending patterns in the agricultural community may be significant. Immediately, taxes will act as "forced savings" reducing available income. When benefits begin to accrue, income of retired workers will be increased.

In the long run some agricultural economists have suggested that it might also affect the "cycle of farm value." Farm operators generally attain maximum income from their farm before the age of 40. When the farm is producing the largest income, its value is also at its peak. After the operator "slows down," income declines causing farm values to decrease also. Further reduction in value occurs as the operator continues to "live off his capital." In general, this conversion of a going farm business into a "retirement unit" does not represent the most efficient use of resources. When the farm is finally sold, it is necessary for the new operator to build up the capital again.

It is possible that with a retirement income provided by the social security the farmer may be encouraged to transfer active operation of his farm sooner. This would cushion the decline in the "cycle of farm value." as depletion of farm capital would not proceed as far as would otherwise occur. It will still be necessary to refinance the family farm each generation, but this program may have some positive effect in obtaining an earlier transfer of farms to younger operators.

PERSONAL EXPENSES OF FARM FAMILIES have a high priority claim on farmers' gross income. Current production expenses must also be paid before funds are available for debt service. Only after these outlays are met, can income be considered available for interest and principal payments.

A recent study, at the University of Minnesota, of personal expenses of farm families provides some measure of the size of this claim on gross income. The distribution of personal expenses among farm families in the southeastern part of Minnesota--a dairy and general livestock area--is provided from the following data:

$1,170 - 1,999 -- 25 per cent of the families
$2,000 - 2,999 -- 40 per cent of the families
$3,000 - 5,377 -- 35 per cent of the families

The average size of family was 4.3 while the average personal expense per family amounted to about $2,750 in 1953. While the level of living varies in different areas of the country, these data suggest that $1,500 - $2,000 is a minimum to allow for family living expenses in areas with standards similar to those in southeast Minnesota. The study indicated that the $2,750 of living expenses were distributed among various personal accounts as follows:

Food, meals and clothing	36%
House upkeep, operation, supplies and furnishings	27
Medical care and insurance	10
Auto expenses	8
Charities	7
Personal items, gifts and special events	6
Education, recreation and development	6

As the amount of living expenses varies greatly between families, the above figures serve only as a general guide to lenders. For larger families and those accustomed to comfortable living, personal expenses may approach the upper level of $5,000 or more. Others, particularly young people starting farming and with a small family, may be willing to "tighten their belts" in order to repay a loan. For these, living expenses may approach the lower level. Experienced lenders have observed, of course, that a correct appraisal of the loan-paying ability of a farm depends not only on the farm and the farmer but on the farmer's wife who may, to a large extent, control the personal expenses of the farm family.

Research Department