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Best Practices to Managing Farm Financial Health and Wellbeing

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Introduction

Most farmers and ranchers—and, particularly beginning farmers and ranchers—do not have the financial capacity to hire financial managers to manage their finances for them. The onus is therefore placed on the farmer to assume the multiple roles of accountant, business manager, and farmer at the same time. The tried-and-true approaches to addressing financial risk begin with the development of a whole-farm risk-management plan. We provide best management practices to manage and mitigate the whole-farm, and whole-family risks associated with finances, production, marketing, legal issues, and human interaction (Nickel, 2020). With this reality, below are our recommendations to help farmers navigate the difficult task related to farm financial management.

- Intentionally develop a proactive instead of a reactive approach to farm financials.
- Reach out to extension agents and other support professionals early to deescalate stressful financial situations.
- Maintain good record-keeping habits. It is imperative to enable farmers to qualify for loans from lenders. A well-organized farm with records of all transactions relating to the farm is an efficient one. Plus, it helps the farmer run the operation smoothly.
- Decide when and where to invest in farm assets (such as equipment, breeding stock, buildings, land, irrigation.) and analyze the long-run income that will be generated from such purchases. (White, 2020)
- Develop and maintain constant communication with lenders.
- Connect with other peers involved in farming to serve as an occupational and emotional support system.
- Be open to constant learning by frequently attending or participating in financial literacy programs organized by extension agents or other service providers you trust.
- Build savings and emergency funds. You need to save between 3-6 months living expenses (White, 2014).
- Pay bills, loans, and all other bills on time to maintain and increase credit score, thus increasing creditworthiness.
- Plan ahead for retirement. Consider it as an integral part of financial planning and wellbeing. Planning towards a farm 401k will ensure that farmers can live off their retirement package.
- Diversification of assets is another critical practice due to the volatile and often unpredictable nature of farming. White (2014) suggests allocating 10% of earnings in non-business assets.
- Open business, personal, and investment accounts to prevent funds from getting mixed up. It gives the farmer a clear financial outlook of what they own personally and what the business owns.
- Take a break occasionally to release stress and relish in a non-farm related hobby.

References

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