

Farmers and Social Security

by EDWARD I. REINSEL and JOHN C. ELLICKSON*

Under the Social Security Amendments of 1954, social insurance protection became available to self-employed farm operators if they had net earnings of at least \$400 a year. Information on the age and income characteristics of this group was published in the September 1965 issue of the Agricultural Finance Review, and excerpts from the report are presented in the following pages.

A DECADE ago the social security system was extended to include persons with self-employment earnings from agriculture. The first year they were covered (1955), 2.1 million persons met the minimum income requirements and paid self-employment taxes.¹ After reaching a peak of nearly 2.4 million tax returns for 1956, the number of farm persons filing self-employment social security tax returns decreased each year through 1961. About 3.4 million people had reported farm self-employment income prior to 1962. By the end of 1962 nearly 1.2 million of these persons (or their survivors) were entitled to benefits based on earnings from all sources reported for social security purposes.

Although social security taxes and benefit payments have become increasingly important to self-employed farm people, little is known about the age and income characteristics of these persons or the total taxes paid and benefits received

* Department of Agriculture, Economic Research Service, Farm Production Economics Division.

¹ This report is based largely on a 1-percent sample of individual earnings records maintained by the Social Security Administration. To avoid distortion of the farm self-employment data, records with evidence of nonfarm self-employment were not included. However, farm and nonfarm wages of the farm self-employed are included. Because of this adjustment and other differences in processing, the number of self-employed individuals in the "farm" sample that was analyzed was about 10 percent smaller than that reported in "Social Security Farm Statistics," U.S. Department of Health, Education, and Welfare, Social Security Administration.

by them. This report attempts to shed some light on these questions.

SOCIAL SECURITY COVERAGE OF THE FARM SELF-EMPLOYED

The social security program includes most farm operators, materially participating farm landlords, and certain other persons with a business interest in farming who have taxable net farm self-employment earnings of at least \$400 a year.² Farm self-employment income for social security purposes usually corresponds with net farm income reported for Federal income tax purposes, except as modified by the reporting under the gross income option. The following tabulation summarizes optional methods of figuring farm self-employment income:

If the gross farm income is—	And the net farm profit is—	The self-employment income to be reported is—	
		Regular method	Optional method ¹
Under \$600	Under \$400	None	None
Under \$600	\$400 to \$599	Actual net	None
\$600 to \$1,800	Under \$400	None	Two-thirds of gross
\$600 to \$1,800	\$400 to \$1,800	Actual net	Two-thirds of gross
More than \$1,800	Under \$400	None	\$1,200
More than \$1,800	\$400 to \$1,199	Actual net	\$1,200
More than \$1,800	\$1,200 and over	Actual net	Actual net

¹ In 1955 an individual could use the option to report up to one-half of gross for gross incomes between \$600 and \$1,800. Those with gross incomes over \$1,800 and net incomes of less than \$900 could use the option to report the maximum of \$900.

In computing taxable farm self-employment earnings, some types of income, such as wages and salaries, capital gains, earnings from investments, and value of home produced and consumed products, are not included. For a farm self-

² Landlords who materially participate in the management or the production of crops or livestock on their farms were first included in 1956. For a definition of material participation, see *Social Security Handbook*, U.S. Department of Health, Education, and Welfare, second edition, second printing, January 1963, pages 175-177.

employed person who also received farm or nonfarm wages, the largest amount of taxable self-employment income he could report is determined by subtracting his total taxable wages from the maximum social security credit allowed—\$4,200 for the years 1955–58 and \$4,800 for 1959 and later. The maximum and the limitation of self-employment income to be reported for social security purposes do not appear to greatly affect the distribution of earnings.³

PERSONAL CHARACTERISTICS

The number of individuals who reported farm self-employment earnings for 1 or more years between 1955 and 1961 includes a large number of older persons.

Ninety percent of those born before 1890, who reported self-employment earnings from agriculture before 1961, filed a social security tax return for 1955 or 1956. Many of these older people quickly acquired an insured status and they or their survivors became entitled to benefits. However, one-fifth of the persons born before 1890 continued to report farm earnings as late as 1961, when they would have been at least 71 years old.

Those born during the 1890's accounted for about one-fifth of all farm self-employed people reporting during the period under study. Well over four-fifths of those born during the 1890's reported earnings for social security purposes for the first 2 years of farm self-employment coverage. The number declined sharply after 1956, as many became entitled to benefits and retired, or their net earnings from self-employment were less than the \$400 minimum.

Each of the next three age groups (from 1900 through 1929) account for fewer people than those born in the 1890's and are successively smaller from oldest to youngest. But they resemble each other closely in reporting patterns. After the initial years of farm self-employment coverage, individuals reporting for the first time from these groups largely offset those from the

³ For a discussion of the effect of the wage ceiling, see John C. Ellickson, "Distribution of Farm Incomes," *Agricultural Finance Review*, U.S. Department of Agriculture, Vol. 23, April 1962.

TABLE 1.—Number and percentage distribution of individuals with taxable farm self-employment earnings in 1961, by age, sex, and race ¹

Age	Number	Percentage distribution				
		Total	White ²		Negro	
			Male	Female	Male	Female
	Thousands	Percent	Percent	Percent	Percent	Percent
Under 31...	204	100	97.7	1.8	0.4	0.1
31-40.....	340	100	97.0	1.9	1.0	.1
41-50.....	457	100	95.2	3.4	1.2	.2
51-60.....	507	100	90.2	8.0	1.6	.2
61-70.....	310	100	86.8	10.2	2.6	.4
71 and over..	111	100	80.2	17.8	1.5	.5
Total..	1,929	100	92.3	6.1	1.4	.2

¹ Based on the 1 percent social security sample.

² Includes all except Negroes.

same groups who stopped reporting. As a result, the number reporting from these groups each year remained rather stable, particularly after 1958.

The small number of reports from the group born after 1930 indicates that there are few farm self-employed persons in this age group. The size of this group will increase, since it has no age cut-off. However, the number of persons born in the 1930–39 decade who report farm self-employment earnings will probably never equal the numbers born in any decade since 1890 who have reported.

White⁴ males accounted for about 92 percent of the earnings records showing farm self-employment in 1961; Negroes (males and females) represented less than 2 percent. Generally, both Negroes and white females were older than the white males and thus they accounted for a smaller percentage of the younger groups (table 1). More than 18 percent of the persons born before 1890 (age 71 and over) who reported in 1961 were females compared with less than 2 percent in each of the groups born in 1920 or later (those under 41 years of age). This is partly because many older farm widows reported self-employment income either as farm operators or as farm landlords after the death of their husbands. Sixty percent of the females who reported farm self-employment income for 1 or more years were born before 1900; only 8 percent were born after 1920. About 14 percent of the Negroes were females in contrast with about 7 percent of the whites.

⁴ Includes all except Negroes.

EARNINGS OF FARM SELF-EMPLOYED PEOPLE

Information about the earnings of persons with taxable farm self-employment can aid in understanding the economic well-being of these people. Also, the level of earnings is important in determining the monthly benefits after entitlement. Nearly 60 percent of these persons reported taxable self-employment earnings of less than \$2,000 in 1961 (table 2).⁵

TABLE 2.—Number and percentage distribution of individuals with taxable farm self-employment earnings, by amount of earnings, by age, 1961¹

Age	Number	Percentage distribution by earnings ²					
		Total	\$1-\$999	\$1,000-1,999	\$2,000-2,999	\$3,000-3,999	\$4,000 and over
	Thousands	Percent	Percent	Percent	Percent	Percent	Percent
Under 31.....	204	100	23.4	32.9	19.4	11.3	13.0
31-40.....	340	100	15.6	30.3	17.9	13.8	22.4
41-50.....	457	100	16.8	35.9	16.3	11.2	19.8
51-60.....	507	100	19.5	44.7	14.8	7.7	13.3
61-70.....	310	100	30.3	37.0	11.3	7.6	13.8
71 and over.....	111	100	38.0	33.5	11.5	6.1	10.9
Total.....	1,929	100	21.4	36.9	15.4	9.9	16.4

¹ Based on the 1 percent social security sample.

² Gross income optional reporting allows some individuals to report who would otherwise be excluded and also tends to shift individuals from the \$1-\$999 income class to the \$1,000-\$1,999 class.

Of the six age groups, those between 31 and 40 years of age in 1961 generally had the highest earnings. Even so, 46 percent of this group had taxable self-employment earnings under \$2,000 and less than one-fourth had earnings over \$4,000.

Earnings were lower for successively older groups. More than half of those between 41 and 50 years of age received less than \$2,000 taxable income. Self-employed persons over 70 received the lowest incomes. Seven-tenths of this group reported less than \$2,000. Individuals under 31 years of age apparently had not reached their peak farm self-employment earnings, since they did not earn as much as those between 31 and 50.

Nearly one-fourth of those with taxable farm self-employment earnings in 1961 also had wages.

⁵ The percentage of all self-employed farmers with earnings of less than \$2,000 would be even greater because the income of some is below the minimum required for reporting to social security. For example, 1.3 million farm sole proprietors reported no net profit or gross business receipts of less than \$1,000, to the Internal Revenue Service in 1961. Many of these would not have reported earnings for social security purposes.

The percentage with wages decreased for successively older groups and ranged from 40 percent of the persons under 31 years old to only 4 percent of those 71 years old and over. About 13 percent of those between 61 and 70 earned wages. This has important implications, since older persons who infrequently earned wages also had lower self-employment incomes.

A combination of taxable farm self-employment earnings and wages reveals a distribution of incomes much like the distribution for taxable farm self-employment earnings (table 3). Wages, of course, increased the level of earnings. Including both sources, half of the people earned less than \$2,000. About 36 percent of those between 31 and 40 had combined earnings of less than \$2,000, in contrast with about 57 percent for those between 51 and 60. The two oldest groups earned as much as \$2,000 less frequently than any younger group, but many persons in these groups were already receiving social security benefits. Slightly more than 20 percent of those with taxable farm self-employment earnings in 1961 received more than \$4,000 including wages. Except for those under 31 years old, the percentage of persons with combined earnings over \$4,000 was inversely related to age.

The percentage distribution of the 1 percent sample of persons with farm self-employment earnings in 1961 (table 2) is similar to a distribution based on the complete tabulation of taxable self-employment incomes reported on farm tax schedule F (table 4). The sample data were used to show the relationship between age and earn-

TABLE 3.—Number and percentage distribution of individuals with taxable earnings from both farm self-employment and wages, by amount of earnings, by age, 1961¹

Age	Number	Percentage distribution by earnings ²					
		Total	\$1-\$999	\$1,000-1,999	\$2,000-2,999	\$3,000-3,999	\$4,000 and over
	Thousands	Percent	Percent	Percent	Percent	Percent	Percent
Under 31.....	204	100	13.1	30.5	22.9	15.0	18.5
31-40.....	340	100	9.1	27.0	18.3	16.3	29.3
41-50.....	457	100	10.8	32.5	18.4	13.2	25.1
51-60.....	507	100	14.5	42.5	17.9	9.1	17.0
61-70.....	310	100	27.5	35.5	12.2	9.1	15.7
71 and over.....	111	100	37.3	34.0	11.6	0.2	10.9
Total.....	1,929	100	15.9	34.5	17.1	11.8	20.7

¹ Based on the 1 percent social security sample.

² Gross income optional reporting of farm self-employment earnings allows some individuals to report for social security purposes who would otherwise be excluded and also tends to shift individuals to higher earnings classes. Inclusion of wages in the total earnings tends to shift individuals with wages to higher earnings classes than they would be in a distribution of farm self-employment earnings.

TABLE 4.—Number and percentage distribution of persons with taxable farm self-employment earnings, by amount of earnings, by region, 1961¹

Region ²	Number	Percentage distribution by earnings ³					
		Total	\$1-\$999	\$1,000-1,999	\$2,000-2,999	\$3,000-3,999	\$4,000 and over
	Thousands	Percent	Percent	Percent	Percent	Percent	Percent
Northeast and Lake...	369	100	18.6	42.2	17.2	10.2	11.8
Corn Belt.....	492	100	17.0	34.8	16.9	12.0	19.3
South.....	425	100	35.9	41.9	10.6	4.8	6.8
Great Plains.....	390	100	17.7	34.6	15.6	10.7	21.4
West.....	181	100	14.8	35.6	13.4	9.9	26.3
Total....	1,857	100	21.6	37.9	14.9	9.5	16.1

¹ Based on a 100 percent tabulation, by States, of Schedule F tax returns reporting farm self-employment earnings for social security purposes.

² Regions: *Northeast and Lake*—Maine, N. H., Vt., Mass., R. I., Conn., N. Y., N. J., Pa., Del., Md., D. C., Mich., Wis., Minn.; *Corn Belt*—Ohio, Ind., Ill., Iowa, Mo.; *South*—Va., W. Va., N. C., Ky., Tenn., S. C., Ga., Fla., Ala., Miss., Ark., La.; *Great Plains*—N. Dak., S. Dak., Nebr., Kans., Okla., Tex.; *West*—Mont., Idaho, Wyo., Colo., N. Mex., Ariz., Utah, Nev., Wash., Oreg., Calif., Alaska, Hawaii.

³ Gross income optional reporting allows some individuals to report for social security purposes who would otherwise be excluded and also tends to shift individuals from the \$1-\$999 income class to the \$1,000-\$1,999 class.

ings, while the tabulation of F schedules shows regional earnings distributions.

Earnings differ among regions. The South, which included about 23 percent of the farm self-employed people, reporting on Schedule F, accounted for less than 10 percent of the persons reporting \$4,000 or more. In contrast, only about 10 percent of the farm self-employed persons were in the West, but that region accounted for about 16 percent of the earnings over \$4,000. Although earnings were highest in this region, only slightly over one-fourth received \$4,000 or more.

Distributions of earnings in the Corn Belt and Great Plains are similar. Farm self-employment earnings in the combined Northeast and Lake States region are higher than in the South, but below those in the Corn Belt, Great Plains, and West.

BENEFITS TO FARM PEOPLE

As a group, farm people have received a large amount of benefits in relation to the amount of their social security tax payments. This is largely because many were first covered by social

security at older ages. About 1.2 million persons (or their survivors), or one-third of the number of persons who reported taxable self-employment incomes from farming for any year between 1955 and 1961, were entitled to benefits by the end of 1962. Nearly 90 percent of these entitled persons retired (almost 15 percent died after retirement, but before the end of 1962), 8.5 percent died (most of whom had not attained retirement age and benefits were being paid to their survivors), and 1.7 percent were awarded disability benefits. In 1956, the peak year, over 315,000 persons became entitled to benefits on the basis of records reporting farm self-employment income; in 1957 this number was about 228,000. More than 385,000 of the records on which persons became entitled to benefits in 1956 or 1957 were for self-employed persons born before 1890. This was 75 percent of all persons of that age who reported self-employment incomes from farming for any year during 1955-61. As substantial numbers of farm self-employed persons became entitled to benefits, there was a decline in the number of tax returns filed.

Assuming minimal monthly benefits, it is estimated that persons who reported farm self-employment income, between 1955 and 1961, and their dependents or survivors received over \$500 million in social security benefits during 1961. More realistic estimates suggest that this figure may be near \$780 million.

Social security benefits received by those with farm self-employment income were partly offset by self-employment social security taxes paid. In 1961, according to estimates based on a distribution of incomes, this group paid about \$240 million in taxes.⁶ Of this, about \$187 million was paid on self-employment earnings and \$53 million was paid on wage earnings. Generally, those who were receiving benefits paid no taxes or substantially less in taxes than persons not yet entitled to benefits.

⁶ This does not include either social security taxes paid by employers for farm self-employed persons who also had wages or social security taxes paid by farmers for their employees.