

Resolve to develop better financial habits



Editor's note: Kent Vickre and Dwight Raab write a tax and finance column for each issue of Pioneer GrowingPoint® magazine. Vickre is state coordinator of the Iowa Farm Business Association. Raab is state coordinator of Illinois Farm Business Farm Management. They address issues that influence agribusiness success.



As the new year begins, many people make resolutions about how they hope to behave in the coming year. While most of our resolutions soon fall by the wayside, occasionally we'll remain determined and carry out our plans over the long haul.

As we debate on whether or not to make any new "financial resolutions," We're reminded of Newton's Law of Motion: "An object at rest will remain at rest unless acted on by an outside force." If we don't act on my finances, they will remain "at rest." They aren't going to improve themselves.

Keeping in tune with the current economy, I've compiled a few "timely" financial resolutions along with tips to help you follow through with some positive financial changes in 2010.

- 1. Stay current on your recordkeeping:** This should be on the top of everyone's list, and for good reason. Having a current set of accurate records enables you to calculate your production costs, profits and tax liability. With this information readily at hand, a producer has an "at-a-glance" snapshot of his or her business to help make informed decisions.
- 2. Prepare a budget:** The new year is a great time to develop or review your financial budget. This helps you monitor the direction of your business. Be sure to consider any future capital purchase needs, input costs and expected yields per acre as you create your budget. When considering capital purchase expenditures, be sure the asset will create enough additional income to

Now's the time to overcome inertia and make positive changes.

pay for itself over the expected life of the asset.

- 3. Work with your banker to develop a financial plan:** Gather your inventory numbers, your production numbers and create a cash flow before you meet with your banker. This will allow the two of you time to develop a plan rather than spending the meeting trying to put these numbers together.

Meet with him or her several times a year to keep plans on track. Also, if you see a problem arising in your finances, see your banker immediately and try to come up with a plan to resolve the situation quickly. This is not the time to keep quiet and try to work it out by yourself, regardless of how much you hate to ask for help. Your banker is there to help you with these situations.

- 4. Develop a marketing plan:** A good plan will consider production costs (breakeven), your financial condition (risk capacity) and cash flow needs.
- 5. Plan for retirement:** Contribute to your retirement plan throughout the year. This helps ensure that you meet your retirement needs. Meet with your tax professional to work through a contribution plan that can lower your tax liability without stressing your cash flow.
- 6. Review your insurance needs:** Be sure to consider ALL types of insurance such as life, crop, property and health. Increasing your deductible can lower your premiums while maintaining adequate coverage.
- 7. Examine how your debt is structured and monitor interest rates:** Too often, producers use short-term debt to make improvements or to purchase long-term assets. This results in the producer paying higher interest rates than necessary for debt that should have been set up as long-term debt originally. Many times this leads to cash flow problems.
- 8. Update computer software:** A farm accounting software that easily performs repetitive and time-consuming summaries will enable you to routinely evaluate your records and allow you to quickly make educated decisions when faced with a challenge or presented with an opportunity.

You can choose from various software programs. However, make sure the program is designed for farm records and has simple data entry procedures. The software should be designed to handle unique farm transactions such as sealed grain, co-op dividends, crop bushels and livestock weights among other items.

We urge the Farm Business members in Iowa and Illinois to use the PcMars Farm Accounting Software, one software package that accomplishes all this.

- 9. Review your credit report:** Items included on your credit report are your personal information, credit payment history and public information (tax liens, bankruptcy, etc.). It's your responsibility to identify and dispute any errors. For a free credit report, you can go to: <http://www.AnnualCreditReport.com> or call this toll-free number: 877-322-8228 (877-FACT-ACT).

The Fair and Accurate Credit Transactions Act gives you the right to a free copy of your credit report once a year from each of the three major credit reporting agencies:

- TransUnion (www.transunion.com) 1-800-888-4213
- Equifax (www.equifax.com) 1-800-685-1111
- Experian (www.experian.com) 1-888-397-3742.

It's possible to receive a free credit report once every four months by rotating requests from each company above. You also can purchase your credit score and information from these credit reporting agencies.

- 10. Check your Social Security Earnings Statements:** Each year, the government mails a copy of your Social Security Earnings Statement to you. You'll receive your statement three months before your birth month. This statement will list your earned income for every year you have worked.

Check to make sure your reported income is correct. For more information, go to <http://www.socialsecurity.gov/mystatement> or call 1-800-772-1213.

- 11. Set goals:** Write down and periodically review and adjust your financial goals. It may sound trivial, but without consistently examining your progress to date and looking to future needs, it's hard to fine tune your performance.
- 12. Know when to "take a break" from work:** The way you choose to "get away from it all" isn't important, as long as when you do so, you shift your entire focus from work. Approaching troublesome issues from a new perspective with a clear mind will help make your business stronger.

Finally, be realistic. Don't plan to act on all of the changes you would like to make at once. Pick one or two areas to focus on at a time. That way, you'll keep from getting overwhelmed and be able to experience a greater degree of success. So, what's YOUR New Year's resolution? 