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Farm Employee Retention

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Hiring and managing employees is one of the least liked tasks a farm operator faces. Questions about the cost of hiring employees are an often-asked question of **Kentucky Farm Business Management Program** (KFBM) specialists. Based on KFBM data, employers can expect the annual per-employee cost to range from $42,920.66 to $31,286.63 depending on the area. The data includes not only the salary or hourly rate but also taxes and benefits the employer pays. Table 1 below shows the breakdown for each of the **KFBM regions** and for Kentucky as a whole.

Table 1: Farm Employee Cost Breakdown by KFBM Region

	All Kentucky	Purchase Region	Pennyroyal Region	Ohio Valley Region	Central KY Region
Annual Cost	$38,645.90	$42,920.66	$39,682.71	$34,725.60	$31,286.63
Per Hour (40-hour work week)	$18.58	$20.63	$19.08	$16.70	$15.04
Per Hour (45-hour work week)	$16.52	$18.34	$16.96	$14.84	$13.37

High-quality employees that require minimum supervision are obviously going to cost more than the average of the group. Farm employers need forward-thinking ideas aimed at keeping good employees. This could be something like retirement benefits, bonus pay, commodity wages, life insurance, or paid vacation.

There are multiple types of employer-sponsored retirement plans such as 401(k), Roth 401(k), SIMPLE IRA, and SEP IRA. Employer-sponsored retirement plans come with a set of rules as defined by the Internal Revenue Service (IRS.) Make sure to consult with a financial planner before forming a plan. A common rule of retirement plans is that employers must offer all full-time employees the retirement plan and the employer contribution must be provided to them regardless of their voluntary participation in the plan.

Bonus pay is an uncomplicated way to provide an incentive to employees. Keep in mind that bonus pay is considered supplemental wages and subject to withholding taxes. The flat federal income tax withholding rate is 22%. Bonus pay could be a set amount or it could be tied to production performance.

Commodity wages are another option. Like bonuses, it could be a set number of bushels, pounds, or number of head agreed upon ahead of time. Or it could be additional bushels, pounds, or number of head based on performance levels. The IRS has many rules in place for commodity wages. Make sure you consult your tax preparer or another advisor before implementing them. The commodity wage must not appear as a cash equivalent. Ownership of the commodity must be transferred to the employee who oversees marketing it. Commodity wages do not require any kind of income tax withholding, but the employee is required to pay income taxes on the income. In addition, the commodity wage should be reported on the employee wage statement at the end of the year.

Life insurance policies not exceeding $50,000 that are directly or indirectly carried by an employer do not have any tax consequences. Policies more than $50,000 will have some tax consequences based on IRS tables.

Finally, it is a good idea to have clear expectations for both the employee and the employer to insure good working relations. Using an employment contract would be an excellent way to communicate to employees what they can expect. Items addressed could be starting wage/salary, seasonal hours expected to work, how to request time off, whom to report issues to, benefits offered, and even how raises and promotions might work.

Farmers are no different from other industries that are currently addressing the lack of employees in the workforce. Hiring and maintaining good employees requires clear communication and creative compensation packages.

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