Risk Management Training
for Diversified Family Farmers

Workbook 2

Managing Family and Personal Risk

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Decision-Making in a Risky Environment

Setting Farm Family Goals

Where are you headed? What do you want? These are questions which face everybody. Most of us do not have very definite answers to these questions. Often, unless there is some kind of pressure (family crisis, job opportunity, etc.), we tend not to think about our goals and objectives very much. We may have a list of things to do, but commonly our goals or objectives are vague and indefinite.

Setting goals requires some time and thought. If we think about our goals and objectives, we would probably find that we could identify a number of goals, some short-term and others long-term goals. Most people have family, business and personal goals. Often some of our goals conflict with one another. This is an important point. Typically we will have some goals that compete and others that complement one another. We need to be aware of these interrelationships among our goals.

A second point is that our goals are not independent of other people and their goals. Spouses, children, parents and others play an important role. Even our purely personal goals are likely to have effects on these other individuals. If we are vague about our own goals, how much do we know about others' goals? How many times have family difficulties developed because one person did not know what another was trying to accomplish? When the high priority goals of individuals who are trying to cooperate are competitive, there can be trouble.

Goal setting is important because goals are a major part of our guidance system. Decisions can be made concerning the likely effects that alternative actions will have on our goals. Goal setting is a dynamic process. A goal may be achieved, and this should be a source of a feeling of accomplishment. New goals may become important to us. The priorities of various goals can also change over time. Individuals may have unrealistic goals which, if not revised, may be a source of frustration and stress.

Goal setting and review are important for all individuals and families. However, goal setting is especially important for farm families because of the close interrelationship of the family and the farm business. The business and family goals of a farm family are likely to be much more intertwined than the family and job related goals of most other families.

Various members of the farm family are commonly involved in the business, and the economic results of the farm business impact directly on the family.

Quiz: Cash Management and Budgeting

From Florida State University's Learning for Life Program, Financial Planning 101, htp://www.learningfor life.fsu.edu

___ **Q 1.** Which of the following types of accounts used in cash management are available from financial institutions?
A. Demand Deposits
B. Time Deposits
C. Money Market Accounts
D. NOW Accounts
E. All of the Above

___ **Q 2.** Which of the following is NOT a factor in determining how much you earn on your investment funds?
A. Whether the banking institution is a federal or a state-chartered bank
B. The initial investment and any subsequent deposits
C. The amount of time the money is left on deposit
D. Tbe rate of interest being paid
E. The method of interest calculation

___ **Q 3.** The amount to which today's investment will grow over a given period of time at a specific rate of interest is known as:
A. Current Value
B. Future Value
C. Compound Value
D. Simple Value

___ **Q 4.** The first step in budgeting is to:
A. Decide how much each month you can devote to savings.
B. Project your income and expenses for the next year.
C. Record historical information concerning your income and expenses.
D. Target any areas in your spending which need to be changed.

___ **Q 5.** The statement which shows your financial condition as of a certain date is called a:
A. Cash Flow Statement
B. Budget Statement
C. Credit application
D. Financial Statement
E. Liquidity Statement

___ **Q 6.** A total of monthly debt repayment should not exceed what percentage of monthly take-home pay?
A. 10%
B. 20%
C. 33%
D. 40%
E. 50%

___ **Q 7.** The method of calculating finance charge on credit accounts which is most expensive for the consumer is the:

A. Average Daily Balance Method
B. Previous Balance Method
C. Adjusted Balance Method
D. Past Due Balance Method

___ **Q 8.** The guideline that mortgage lenders use in determining what house payment you will generally qualify for is that your monthly house payment including principal, interest, taxes, and insurance should not exceed _____ of your gross monthly income, and this house payment plus payments for all other debts should not exceed _____ of your gross monthly income:

A. 50% and 100%
B. 33% and 50%
C. 28% and 38%
D. 15% and 25%

___ **Q 9.** The type mortgage in which the interest rate changes during the life of the loan is called a:

A. Fixed Rate Loan
B. Balloon Mortgage
C. Adjustable Rate Mortgage
D. Growing Equity Mortgage
E. Reverse Mortgage

___ **Q 10.** The following should be considered when determining whether or not to refinance an existing home mortgage:

A. The closing costs on the new loan
B. The anticipated length of ownership of the home
C. The difference in payments between the old a new payment
D. Whether or not the existing loan has a prepayment penalty
E. All of the above

___ **Q 11.** All of the following are true statements concerning an auto lease EXCEPT:

A. A lease never requires a down payment.
B. Mileage during the lease is limited to a specific amount.
C. Additional fees may apply if you terminate the lease early
D. The leasing company retains ownership of the vehicle

Answers

1. **E**; 2. **A**; 3. **B**; 4. **C**; 5 **D**; 6. **A**; 7. **B**; 8. **B**; 9. **C**; 10. **E**; 11. **A**

Score = 0% — 50%: Back to the books.
Score = 51% — 70%: Maybe a refresher on a few items.
Score = 71% — 85%: Pretty Good.
Score = 86% or better: You are doing well!!!

Quiz: Insurance and Risk Management

___ **Q 1.** The Risk Management technique which involves the lowering of the probability of a particular hazard occurring is called:

A. Risk Avoidance
B. Risk Reduction
C. Risk Assumption
D. Risk Transfer

___ **Q 2.** The first step in determining how much life insurance you may need is:

A. Considering the income of other family members
B. Determining what survivor benefits may be available from Social Security or employer-sponsored plans
C. Establishing the dollar value of the need
D. Deciding how much coverage you can afford.

___ **Q 3.** Which of these characteristics is NOT true of term insurance?

A. No cash value build up
B. Premiums are less expensive than with other plans.
C. Term insurance is purchased for a certain period of time.
D. At the end of the "term" the coverage may be continued for the same premium.

___ **Q 4.** All of the following are examples of cash value life insurance EXCEPT:

A. Level Term Life
B. Variable Life
C. Universal Life
D. Whole Life

___ **Q 5.** The following factor(s) should be considered when choosing an insurance company:

A. Financial strength of company
B. Availability of local professional service personnel
C. Cost
D. Comparative policy benefits
E. All of the above

___ **Q 6.** Which of the following is a TRUE statement concerning the taxation of life insurance policies?

A. Policy loans are taxed as capital gains.
B. Death benefit is received income-tax free.
C. All cash withdrawn from the policy will be subject to income tax.
D. Dividends are taxable as ordinary income.

___ **Q 7.** The type of medical insurance plan which features co-pays at the time of service and a limited number of providers, with one physician serving as the "gatekeeper" who directs all non-emergency care is known as:

A. Preferred Provider Organization
B. Indemnity Plan
C. Comprehensive Medical Plan
D. Health Maintenance Organization
E. Fee For Service Plan

___ **Q 8.** Most long term care expenses are paid by:

A. Medicaid after the "spend-down" of personal financial resources
B. Medicare Part A
C. Medicare Part B
D. Medicare Supplemental Policies
E. Health Maintenance Organizations

___ **Q 9.** All of the following factors affect the cost of a disability income policy EXCEPT:

A. Age
B. Occupation
C. Duration of Benefits
D. How many years in current occupation
E. Length of elimination period

___ **Q 10.** Section II E of your Homeowners Policy provides coverage for:

A. The dwelling
B. Other Structures
C. Liability Loss
D. Loss of Personal Property
E. Loss of Use of Property

Answers

1. **B**; 2. **C**; 3. **D**; 4. **A**; 5 **E**; 6. **B**; 7. **D**; 8. **A**; 9. **D**; 10. **C**

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Quiz: Estate Planning

___ **Q 1.** Estate planning involves:
A. Minimizing estate and transfer taxes
B. Determining who will be heirs or beneficiaries of all estate assets
C. Transferring maximum possible percentage of estate to heirs
D. Providing financial security to dependents after your death
E. All of the above

___ **Q 2.** Any property transferred at death by your will makes up your:
A. Probate estate
B. Gross estate
C. Non-probate estate
D. Taxable estate
E. Net estate

___ **Q 3.** An asset which would pass outside your provisions of the will would be:
A. A bank account held just in your name
B. The life insurance proceeds on a policy in which you have made your estate the beneficiary
C. Real estate held as a Tenant in Common
D. Assets in your pension plan of which your spouse is the beneficiary

___ **Q 4.** The type of property ownership which applies only to husbands and wives jointly owning property and provides for automatic rights of survivorship is called:
A. Tenants in Common
B. Tenants by the Entirety
C. Community property
D. Joint Tenants With Rights of Survivorship

___ **Q 5.** The clause of a will that disposes of specific property is the:
A. Disposal Provision
B. Direction of Payments Provision
C. Appointment Clause
D. Execution Clause

___ **Q 6.** A(n) _____ makes a change to an existing will:
A. Last letter
B. Amendment
C. Codicil
D. Right of Election

___ **Q 7.** The party to a trust who creates the trust is called the:
A. Beneficiary
B. The Trustee
C. The Executor
D. The Grantor

___ **Q 8.** A trust which is created during the grantor's lifetime and may be amended is called :
A. A revocable living trust
B. An irrevocable living trust
C. An irrevocable testamentary trust
D. A revocable testamentary trust

___ **Q 9.** A disadvantage of a Revocable Living Trust is:
A. There is management continuity in the event of incapacity.
B. There will be legal fees involved.
C. Trust property is subject to probate.
D. The Grantor must continue to make investment and management decisions.

___ **Q 10.** Federal Laws exempt certain gifts made during your lifetime from gift tax. These exemptions would include all of the following *except:*
A. Charitable contributions
B. An annual gift of $50,000 per year to each of your children
C. A gift of $1,000,000 to your spouse
D. A gift of $20,000 given jointly with your wife to your son

___ **Q 11.** Costs associated with the settlement of an estate are:
A. Probate fees
B. Attorneys fees
C. Federal Estate Tax
D. Income tax
E. Unpaid bills
F. All of the above

Answers

1. **D**; 2. **A**; 3. **D**; 4. **B**; 5 **A**; 6. **C**; 7. **D**; 8. **A**; 9. **B**; 10. **B;** 11. **F**

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Agricultural Business Plan

From Farm & Agriculture Collaborative Training Systems (FACTS)