

Family Budgets

Dean McCorkle, Fredrick D. DeLano, Danny Klinefelter and Larry Langemeier*

Budgeting for family income and expenses is often a lower priority for farm and ranch families than budgeting for the business. Without budgeting, family living expenses may exceed the available income and jeopardize the overall financial goals of the farm and family. The management of family expenses within a set of mutual family goals can help to keep money from slipping needlessly away. Some reasons producers do not devote more time to managing family finances include:

- They are not tax deductible.
- Family budgeting is difficult and time consuming.
- Compared to farm/ranch expenses, family living expenses are too small to worry about.
- Non-farm income pays for family expenses so it doesn't matter.

Many producers devote attention to family living expenditures only once a year—at loan renewal time. To approve an operating loan, many lenders require that the borrower provide an estimate of family living costs, either as an annual total or broken down by expense category. Producers may rarely go back and compare their actual family living expenses against their budgeted amounts.

Why Develop a Family Living Budget

Budgeting for family expenditures is the foundation of a sound financial management plan. When used in conjunction with records of actual spending, a family budget allows you to pinpoint unnecessary spending, and areas where actual costs may be higher or lower than you previously thought. Given the tight profit margins in agriculture, adhering to a finely tuned family budget can provide a much needed boost to your financial future.

Family Goals and Standard of Living

Before developing your family budget, you must first determine your farm and family goals, and the standard of living your family desires. It is important that all members of the family be involved in this goal setting process so that the goals reflect the perceptions and ambitions of each member of the family.

Open communication is important in this process. When establishing family goals, be as realistic as possible and consider all available income. If you set unattainable family goals you will only have to adjust them later to match your available financial resources.

The financial goals of your family can be divided into two categories—short-term and long-term. Short-term goals are those you hope to achieve in the coming year, while long-term goals are those you hope to achieve further in the future and that usually require substantial financial resources. Examples of short-term goals are replacing the washer and dryer, or trading in the family car. Examples of long-term goals include saving for your children's education, saving for retirement, and paying off the farm/ranch.

*Extension Program Specialist—Risk Management, The Texas A&M University System; Extension Agricultural Economist, Kansas State University Agricultural Experiment Station and Cooperative Extension Service; Professor and Extension Economist, The Texas A&M University System; and Extension Agricultural Economist, Kansas State University Agricultural Experiment Station and Cooperative Extension Service.



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Standard of living is mostly perception. What one person or family perceives as being a lavish lifestyle may seem frugal to someone else. The standard of living your family desires can be something you want now, or it can be a goal to strive for in the coming years. Do you want to drive a \$40,000 vehicle or a \$15,000 vehicle? Do you want to live in a \$250,000 house or a \$65,000 house. How frequently do you want to dine out at an expensive restaurant—twice a week, once a month? These are the kinds of standard of living questions you need to address.

Family Records

The best way to develop an accurate family budget is to be very familiar with your current and past expenses. If you have not been keeping good records, developing a budget will be more difficult. You may be doing one or a combination of the following: 1) drawing an amount from the farm checking account to pay family living expenses each month; and/or 2) using non-farm income to pay all or a portion of family living expenses. In either case, you can probably review past bank statements and pay check stubs to determine how much money you spent each month for family living expenses. After determining this amount, list the expenses you incur each month that are known, or fixed. These could include child-care, car payment(s), house payment(s), cable/satellite TV, auto/life/home/medical insurance, and others. After establishing these amounts, subtract the total of these known expenses from the total amount the family spent. The remainder will be those expenses that vary from month to month. These will include expenses such as groceries, dining out, gifts, utilities, clothing, entertainment, travel, furniture, home maintenance, medical care, auto fuel, and others. Next, based on your memory, cashed checks, and other records you may have, allocate the remainder to the family living expense categories that vary from month to month. Start with expenses for travel, furniture, home maintenance, and medical care, since these expenses tend to occur less frequently than the others. For the others, you'll have to use your best judgement in allocating to these categories. Try to recall any amounts that were intended to be used for family living expenses but were instead transferred to the farm account (and/or non-farm business account) or used to service farm debt. Overlooking these types of transactions could cause your family living expenditures to be vastly overestimated.

Developing Your Family Budget

If you have been keeping good family records, building a budget is much simpler because you know your past spending patterns. Whether you

are building the budget based on an estimate of past costs or on actual costs, keep in mind that your past lifestyle, goals, and standard of living may or may not be the same as the way you plan to live in the future.

You can budget on an annual basis, monthly basis (cash flow), or a monthly average. Use a method that is most useful to you. If your income fluctuates from month to month, a monthly budget will probably be most useful. If your income is fairly stable from month to month, an annual budget may be most useful.

Budgeting Income

To begin, list all sources and estimated amounts of income you expect to have available for family expenses during the year. These include salaries, interest income, rental income, dividends, non-farm business income, etc. If some portion of farm income is to be used for family living (which is typical), estimate an amount you plan to set aside for family living. You may have to adjust these amounts before you're satisfied with your budget.

Budgeting Expenses

Since there are so many types of family living expenses, determine the categories that are meaningful to you and your family. For simplicity, they should be consistent with the categories you use in your record-keeping system. Refer to Table 1 for examples of expense categories. The next step is to budget an amount for each of your expense categories that reflects the goals, lifestyle, and desired standard of living you have established.

Example

Jack and Jane Farmer are not happy with their current financial situation and have decided to take a closer look at their family expenditures. They have been using some of their equity to pay for family expenses. Here are a few facts about the family:

- The Farmers have been keeping pretty good family living records.
- The Farmers have a 6-month-old son.
- They farm full time and have a medium size cow/calf operation. After all farm expenses and loan payments are paid, \$12,000 is available for family living expenses.
- Jane works off the farm and has annual take home pay of \$30,000. The Farmers also earn a small amount of interest income each year.
- They are satisfied with their current standard of living but they think they can achieve it at a lesser cost.

- They would like to invest \$150 per month for their child's college education and \$175 per month into an IRA.

The budget in Table 1 is the Farmers' first attempt at putting together a family budget. To keep the budgeting process as simple as possible, they only list the net amount (take home pay) of Jane's salary. The taxes withheld from Jane's salary adequately cover the tax liability incurred due to the salary. They estimate an additional \$3,000 in taxes due on their farm and interest income. The Farmers' family living records are pretty good, but not perfect. Knowing this, they review the past 12 months of records and make a few corrections. They then make estimates for the budget based on the past 12 months of records, keeping in mind that during the most recent 6 months, they have had a child.

Table 1. Example Monthly Average Family Living Budget.

	Monthly average	Annual
Income		
Salary (net take home)	\$2,500	\$30,000
Farm income available	\$1,000	\$12,000
Interest	\$42	\$504
Total income	\$3,542	\$42,504
Variable expenses		
Auto fuel	\$150	\$1,800
Auto repair	\$75	\$900
Clothing	\$150	\$1,800
Contributions	\$200	\$2,400
Dining out	\$150	\$1,800
Entertainment/Travel	\$75	\$900
Gifts	\$50	\$600
Groceries	\$275	\$3,300
Medical	\$50	\$600
Telephone	\$75	\$900
Utilities	\$125	\$1,500
Household/Furniture	\$100	\$1,200
Savings/Investments	\$325	\$3,900
Total variable expenses	\$1,800	\$21,600
Fixed expenses		
Car payment	\$200	\$2,400
Child care/Child expenses	\$400	\$4,800
House payment	\$963	\$11,556
Insurance	\$200	\$2,400
Taxes	\$250	\$3,000
Total fixed expenses	\$2,013	\$24,156
Total expenses	\$3,813	\$45,756
Net surplus/deficit	(\$271)	(\$3,252)

Budget Surplus or Deficit

The next step is to subtract the total expenses from projected income to determine if you have a budget deficit or surplus. If you have a surplus, consider doing some or all of the following:

- Make sure you have not underestimated some of your expenses or overestimated income.
- Apply the surplus to debt.
- Reinvest the surplus back into the farm.
- Invest the surplus.
- Increase your standard of living and/or family goals.

Usually the first attempt at building a family budget reveals a budget deficit. The steps below will help you determine how to alleviate a deficit:

- Make sure you have not overstated any of the expenses or underestimated income.
- Reevaluate your family's goals and desired standard of living. You may need to lower them.
- Determine if you can decrease expenses while still meeting your goals and standard of living. You will more than likely have to make some tough choices to accomplish this.
- Determine if you have access to more income. If you do have this luxury, convince yourself that you're satisfied with the expense amounts you have budgeted.

Jack and Jane Farmer's family living budget has an annual deficit of \$3,252 (\$271 per month). Given the size of their farming/ranching operation and the realistic farm income and expense estimates they are using, they don't feel comfortable expecting that more than \$12,000 per year will be available for family living expenses. After several lengthy discussions, and researching ways to reduce costs, the Farmers determine the following reductions in expenses are feasible:

Category	Month	Year
House payment	\$ 25	\$ 300
Groceries	\$ 50	\$ 600
Clothing	\$ 25	\$ 300
Dining out	\$ 25	\$ 300
Savings	\$150	\$1,800
Total	\$275	\$3,300

The Farmers have found a cheaper home owner's insurance policy which reduces their mortgage payment. They've decided they can shop smarter, modify spending patterns, and eat out less often to reduce expenses for groceries, clothing, and dining out. Jack and Jane have also decided that for the short term, they will have to hold off on the college savings plan. They hope to work this into their budget in the next 2 to 4 years.

Making the Budget Work

Working with family living budgets can be interesting and very rewarding if you perceive it as a challenge, and recognize the personal economic benefits achieved from a successful budget. Budgeting is not a one-time event, but rather an ongoing exercise in pursuit of your financial goals. To accomplish the goals you have set, you should monitor your actual expenditures and compare them to your budget once or twice a month.

Managing a budget and keeping records is tedious enough, so try to avoid "watching every penny" and being distracted with irrelevant details. A good effort at keeping records and managing your family living budget will go a long way towards enhancing your financial future.

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