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HEG86-209 Farm and Ranch Family Living Expenses–Taking Control

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Farm and Ranch Family Living Expenses--Taking Control*

This NebGuide describes how families with an irregular income can control living expenses through use of a budget and cash flow plan.

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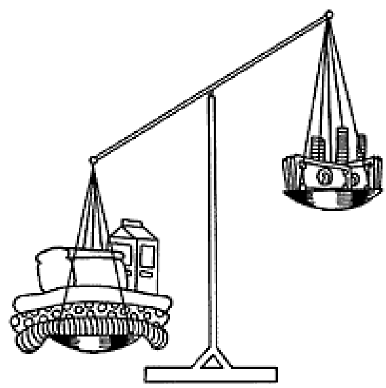


Although farm and ranch family living levels have improved and become more comparable to nonfarm families, there will always be some important differences between these families with respect to managing the family living expenses. Income is irregular for many farm and ranch families and, in the past few years, has been insufficient to maintain the farm/ranch and family at a reasonable level of living. This guide is designed to help the farm or ranch family take control of family living expenses by sharpening managerial skills.

Farmers and Ranchers are Unique

1. Farm and ranch income is irregular and uncertain. Except for some enterprises (dairy, for example), this income varies from year to year, and is usually received following harvest or the sale of livestock at prices sometimes much different than expected. Uncertainty is common for most self-employed people, and especially for agricultural producers.
2. Family housing expenditures, such as mortgage and utility bills, often seem lower than for nonfarm/ranch families. These costs are considered business expenses rather than family living expenses.
3. Food expenditures are lower for families that produce some food for their own use. Raising meat, fruit, or vegetables for home use can cut grocery bills considerably.
4. Adequate insurance protection is usually more costly as there is no employer to pay a portion of the insurance premiums. And, the need for insurance is magnified because agricultural producers face a greater risk of injury, disability, or death.
5. Since your farm or ranch is your home, and your home is your farm or ranch, there is competition between the business and the family for the use of cash. Decisions concerning the business and family happiness should be made by the entire family.
6. Household expenses are small relative to business expenses. Many households find it difficult to control family living expenses when they spend large amounts for agricultural supplies. A dangerous practice is to have only a single bank account for both business and family expenses. A separate account for family living should be established, a regular allocation from the business account transferred to it, and every effort made to stay within this amount.

7. Business items are tax deductible and some of the expenses of farm or ranch living can be included as part of these expenses. Items such as farm vehicles, office equipment, machinery, farm/ranch business-related travel expenses, and business management educational materials are not only tax deductible from business income, but are sometimes used by family members for nonbusiness uses as well.
8. While some transportation expenses for business and family living can be combined, and are therefore tax deductible, it should be remembered that they may be higher for rural families because of the greater distances they must travel to reach services in the local community.

Goals

Setting family goals is a tough, but essential, task. As with using a road map to plan a trip, the most efficient way of getting to where you and your family want to go is to plan the route before you get started. A budget is a family "road map" to help the family get where they want to go--to reach their goals--and some time must be spent deciding on the destinations.

A simple goals worksheet is included in this publication. By specifying the goal, when you want to accomplish it, the amount of money needed to reach it, and what will need to be saved both annually and monthly, this worksheet can be used by farm and ranch households to reach their goals. You need to decide what is the best action plan for you--setting aside a certain amount each month or setting aside money annually when you have income such as from selling grain or animals. Those producers with more regular income may choose to use the monthly plan, while producers with more erratic incomes may find it more realistic to think of saving toward goals as an annual event. Goal priorities can be noted on this worksheet by numbering goals in order of their importance.

In thinking about goals, you also need to consider that they are needed both for the short-term--those that you hope to obtain in the coming year--as well as for the long-term goals that will take several years to accomplish and require substantial financial resources. Examples of short-term goals include home insulation to cut utility bills, or a new sofa or refrigerator. Long-term goals include retirement, paying off the farm/ranch, or saving for your children's education.

Whatever they are, setting family goals and establishing priorities among them requires a frank discussion involving all family members. Having all family members involved can help make each member more sensitive to the family's total financial picture. It may also serve to increase each individual's commitment to the decisions of how money is to be spent, and what they can do to help assure success. Don't be tempted to skip this step. Think of it as a critical foundation for taking control of your living expenses.

Cash Flow Plan

Once you know where you want to go (your goals), you need to make a cash flow plan. Start with household expenditures. After you consider each expenditure, total them to get an estimate of the amount you need to allow for the household account each year.

An advantage of making a cash flow plan is that it allows you to plan both spending amounts and the timing for that spending. Time is a crucial element in budgeting. Successful budgeting will adjust expense timing to closely match that of expected income.

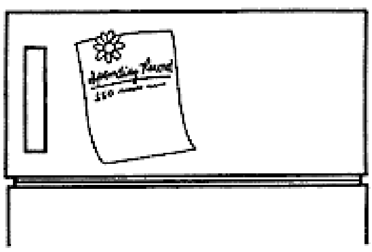
Family living expenditures can be separated into two categories--*fixed* and *variable*. *Fixed* expenditures are those for which you know with certainty the amounts of money required and when the amounts are due. Examples are installment credit payments, medical and life insurance premiums, savings for emergencies and goals, etc. *Variable* expenditures, on the other hand, include food, home repairs, utilities, auto maintenance, and personal allowances. Utilities, for example, vary by the season of the year and should be budgeted for in a way that reduces the shock of the high bills.

Another way to consider expenses is to think of them as either *essential* or *discretionary*. *Essential* expenses are those which must be paid, such as car payments or food. *Discretionary* expenses are not as mandatory and can be delayed or reduced in amount. Examples of discretionary expenses include clothing, recreation and utilities (if conservation measures are taken).

It is important to include a fixed expense category for personal spending money to give each family member the ability to purchase items they personally desire. If a budget is to be successful, it must be followed closely. Money to be spent at the discretion of each family member should be included in the budget.

Cash Flow Planning Form For Household Living Expenses, HEG85-202 is a worksheet for considering what various expenditures will be over the period of time which you choose.

The Nebraska Household Account Book, FM 843 can also be used for planning and for recording actual figures. Use the method and form which best fits you and your situation.



Many people don't know the pattern of their current expenditures. If you are one of them, the best way to get started is to record, specifically, your expenditures for a month. This record should include expenditures made by all family members. Keep the record in a place that is easily accessible to everyone, such as on the refrigerator door. A sheet of notebook paper will allow room for recording money spent. Later, someone can divide the expenses by the categories in your budget.

To help with recording expenses, pay as many expenses as possible by check. (Expenses paid by check would not need to be listed on the refrigerator record sheet if you are trying to determine just what you do spend.) *Caution:* if you write the amount of the check for more than the actual cost to get some cash, be sure to keep track of where that cash goes.

If you use the services of an accountant and/or a computerized record keeping service, computer printouts from your service can be used to help you see where money has been spent in the past.

Check the success of your budget by recording your expenditures. This allows you to see what categories you have under (or over-) budgeted for and gives you direction for adjusting the budget.

OOPS! More Expenses Than Income?

There are two things that can be done if expected expenses are greater than expected income--reduce expenses or increase income.

To reduce expenditures requires that the family decide which planned expenses are necessary for physical and mental health and the safety of the family (the essential expenses), and those expenditures that would be nice, but are not essential for survival (the discretionary expenses). The latter may be trimmed from the budget. In some cases, priorities might have to be placed on necessities, ranking the most important necessity as Number 1, then Number 2, etc.

Flexible expenses are easier for the household to adjust, but require a careful monitoring before adjustments can be made. To adjust fixed expenses requires that you work with the creditor before the expense becomes past due to find some alternative payment plan. *When Your Income Decreases...But the Bills Don't, CC306* and *Negotiating With Creditors, HEG83-183* contain more suggestions for working with creditors and adjusting fixed expenses, most of which apply for rural as well as urban households.

An alternative to reducing expenditures is to increase income. Other than an increase in agricultural prices or production, additional income may be obtained by sending a worker into the labor force, substituting home

production, selling unused and unneeded items, or receiving assistance payments. Increasingly, one or both farm/ranch spouses are working full or part-time in a nonfarm job. Older children can look for ways to earn spending money and, in some cases, may supplement family income with their earning.

Stressing home production may be an important resource to stretch family monetary income. A family garden can reduce the grocery bill considerably. Home clothing construction can help with clothing expenses. Handmade gifts for family members are often treasured above purchased, mass-produced gifts. The raw materials for home projects combined with the time it takes to make them often cost much less than similar purchased gifts.

Selling unused and unneeded items can also add income. The price of a small advertisement may be all it takes.

Assistance payments such as food stamps, reduced or free school lunches, and other public and private assistance may be available if income has dropped. Such programs exist to help those with temporary financial difficulties.

If you have reduced expenses and increased income as much as you are able, you may need assistance from someone else who can help you find additional alternatives. Your extension agent, pastor or minister, and family services offices among others might be a place to start.

Budgets Can Work if You Let Them

Budgets can work for Nebraska rural families. By implementing a system of disciplined spending, a reasonable dollar amount will be identified to spend. A family should try to limit their expenditure to budgeted amounts. For example, if your family's allocation for recreation is exhausted before the month is over, don't spend money from other categories to fund recreational activities. Such end-of-the-month juggling will sabotage a successful budget. If the lack of wanted money persists, have a family meeting to discuss alternatives and try again. Budgets have to be flexible to help you reach your goals.

Final Word

Whatever your family decides, remember that a budget cannot perform miracles. It can, however, help you to see where you are and help you get to where you want to be in the future.

Resources

The following publications are available from the Nebraska Cooperative Extension Service office in your county:

- HEG85-202, *Cash Flow Planning Form for Household Living Expenses*
- FM 843, *Nebraska Household Account Book*
- HEG83-183, *Negotiating With Creditors*
- CC306, *When Your Income Decreases...But the Bills Don't*

OUR GOALS What We're Working For.

GOAL	DATE WANTED	MONEY NEEDED	WE WILL HAVE TO SAVE:	
			YEARLY	EVERY MONTH
Retirement Income		$	$	$
		TOTAL	$	$

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