

**Farm and Family Living Income and Expenditures, 1998 through 2001**

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In 2001 the total, noncapital, living expenses of 1,175 farm families enrolled in the Illinois Farm Business Farm Management Association (FBFM) averaged \$43,212--or \$3,601 a month for each family (Table 1). This average was 1.6 percent higher than 2000 and 5.8 percent higher than in 1999. Another \$4,885 was used to buy capital items such as the personal share of the family automobile, furniture, and household equipment. Thus, the grand total for living expenses averaged \$48,097 for 2001 compared with \$47,526 for 2000, or a \$571 increase per family. The average amount spent per family for capital items was \$97 less, while noncapital expenses increased \$668 per family. The sample farms, which were mainly grain farms, were located primarily in central and northern Illinois.

Figure 1 illustrates the annual capital and noncapital family living expenditures and income and social security tax payments for 1992 through 2001.

Total family living expenses increased 2.6 percent annually during this period. Income and social security tax payments increased in 2001 compared to the year before. The amount of income taxes paid in 2001 averaged \$11,475 compared to \$10,998

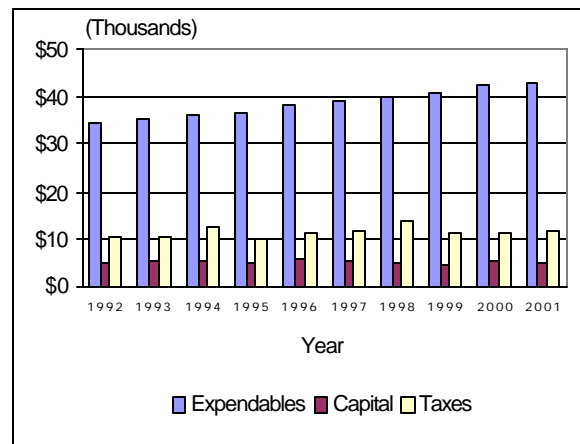


Figure 1. Noncapital and capital family living expenditures and income tax and social security payments, 1992 through 2001.

in 2000. Medical expenses were slightly higher in 2001 compared to 2000. In 2001, medical expenses averaged \$5,710. Medical expenses include out-of-pocket costs for health insurance along with doctor and hospital expenses.

How these families use their funds depends somewhat on the levels of net income from farm and nonfarm sources and the priority of the expenditure. In this sample, the 2001 net farm income decreased (\$20,282 per farm) compared to 2000. Net nonfarm income averaged \$23,374, the highest amount this figure has ever averaged. Net nonfarm

income was 44 percent of total household income.

The amount of interest expense paid by each farm operator increased slightly from \$19,213 in 2000 to \$19,297 in 2001.

Interest paid as a percentage of farm receipts decreased from 7.4 percent in 2000 to 7.2 percent in 2001. The highest that this percentage has been during the last ten years was in 1992 when it was 8.3 percent. As a percentage of cash operating expenses, the interest paid decreased from 9.9 percent in 2000 to 9.4 percent in 2001. Machinery and building purchases increased from \$29,877 in 2000 to \$30,557 in 2001.

Operator's farm income from this sample of farms was slightly lower than the average of all Illinois record-keeping farms. The average operator's net farm income of all Illinois record-keeping farms was \$33,396 or \$3,718 more than the average net farm income for this sample. The average living expenditures for farms in this sample are estimated to be 15 to 20 percent above the average of all Illinois farm operators having more than \$40,000 gross sales per farm, due to the fact the average net farm income for this sample is usually higher than the average for all farms.

In 2001 the operators of these 1,175 farms averaged 50 years of age. The family averaged 3.3 members, with the age of the oldest dependent child being 16 years. The operators kept records so that all sources of funds, both farm and non-farm, balanced with all uses of funds in a complete monthly cash-flow accounting system.

In the table, the averages per farm for total family living expenses are divided into five categories for 1998 through 2001. The "expendables" category includes cash spent for food, operating expenses, clothing, personal items, recreation, entertainment,

education, and transportation. This category also includes selected itemized deductions such as the personal share of real estate taxes. Cash spent for capital improvements exceeding \$250 is not included. The use of a rented house on an estimated 40 to 50 percent of the farms in this sample is not included, since these data cover only cash outlays.

The excess on nonfarm taxable income over nonfarm business expense was \$23,374 in 2001, or 49 percent of the total living expense; in 2000 the excess was 47 percent. It includes dividends on stocks, interest on savings and money-market funds, income from other nonfarm investments, and income from off-farm employment performed by family members. Interest earned and left in savings accounts not included in the cash flow is not reflected in the nonfarm income.

### **High-Third Low-Third Comparison**

The records from farm families with three to five persons were sorted into two categories, the high-third and the low-third, according to their noncapital living expenses. The total living expenses for the high-third group averaged \$73,042, compared with \$34,928 for the low-third group. Figure 2 illustrates total living expenses for these two groups for 1992 through 2001. The high-third group had almost \$108,000 more gross farm sales than the other group. The larger farms in the first group had more income for living expenses and to pay income tax. Net farm plus nonfarm income was \$65,147 for the high-third group compared with \$48,258 for the low-third group. The average age of operators in the high-third group was 46 and the number of family members was 4.1 compared with 44 years of age and 3.9 family members for the other group. Subtracting total living expenses and income

and social security taxes paid from the total

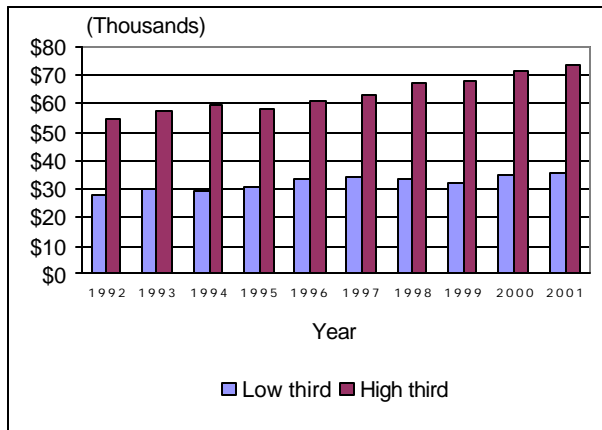


Figure 2. Total family living expenditures for families with three to five people, sorted into high and low thirds according to noncapital living expenses, 1992 through 2001.

of net farm and nonfarm income results in a negative balance of \$23,454 for the high-third group and a positive balance of \$4,147 for the low-third group. Figure 3 illustrates this balance for these two groups for 1992 through 2001.

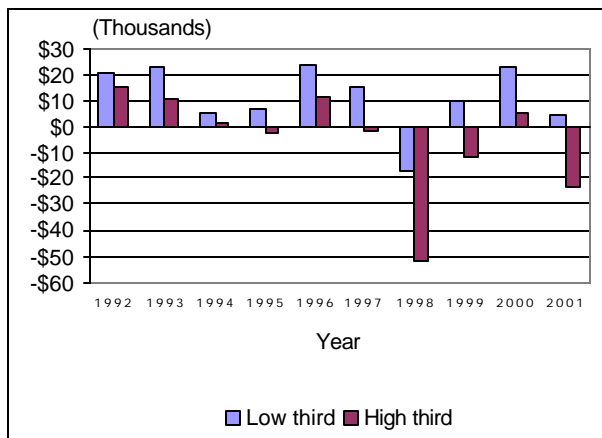


Figure 3. Average of net farm plus nonfarm income minus total family living expenses and income and Social Security taxes paid, sorted into high and low thirds according to noncapital living expenses, 1992 through 2001.

It is interesting to note that although the low-third group had less income than the high-third group, they had more funds

remaining after what was spent for family living and taxes.

Farm operations continue to grow in size. As these operations expand, more funds are flowing in and out of the business. More lenders are requiring cash flow projections and continual monitoring of these projections. It is, therefore, important that more farmers learn how to balance and monitor their cash flow each month.

Computer program assistance is available in more service centers such as most FBFM Association district offices. These centers are prepared to offer services to help farmers project monthly cash flow on computer printouts so that they can compare projections with their actual results. Increased use of microcomputers for farm accounting purposes should also assist more farm operators to account for all funds.

For the farm operators with low equity or very high debt-to-asset ratios, this type of accounting is essential. These operators need to account for all of their sources and uses of funds to assist them in making sound financial management decisions.

The data summarized in this process may also serve as a guide in budgeting allowances for family living expenses. For families in this sample, the family living expenses averaged \$81 for each tillable operator acre farmed. Operator acres are the number of acres the operator receives revenue from. If the net nonfarm income of \$39 per tillable operator acre is used for living, \$42 per tillable operator acre would have to be generated from the farm business to meet family living requirements. In 2000, \$42 per tillable operator acre was also needed from the farm business to meet family living requirements. Each family must determine how much each acre of crop or each litter of hogs should contribute to their family living. This amount, when

added to production costs and other obligations, can help to determine break-even prices needed for products sold.

Table 1. *Average Sources and Uses of Funds over a Four-Year Period and by Noncapital Living Expenses for Selected Illinois Farms*

	All records, average per farm				Family of 3 to 5, 2001 <sup>a</sup>	
	2001	2000	1999	1998	High-Third	Low-Third
Number of farms in sample .....	1,175	1,087	938	912	207	207
Age of Operator .....	50	50	49	48	46	44
Number in family .....	3.3	3.3	3.4	3.4	4.1	3.9
Net Farm Income .....	\$ 29,678	\$ 49,960	\$ 38,091	\$ 10,292	\$ 37,941	\$ 26,775
<b>Source of dollars</b>						
Net nonfarm income .....	\$ 23,374	\$ 22,424	\$ 19,170	\$ 17,992	\$ 27,206	\$ 21,483
Money borrowed.....	194,479	172,889	185,424	181,966	300,599	166,487
Farm receipts .....	266,422	260,066	249,956	236,394	352,668	245,111
<b>Uses of dollars</b>						
Interest paid .....	\$ 19,297	\$ 19,213	\$ 19,585	\$ 17,782	\$ 24,744	\$ 16,031
Cash operating expenses.....	185,154	174,594	166,255	158,153	246,769	172,222
Capital farm purchases .....	30,557	29,877	23,232	31,073	38,955	28,444
Payments on principal.....	179,988	166,890	182,933	156,891	264,718	157,767
Income and Social Security taxes .....	11,475	10,998	11,046	13,859	15,559	9,183
Net new savings and investment .....	9,707	6,281	6,180	13,805	16,686	14,506
<b>Living expenses</b>						
Contributions .....	\$ 1,567	\$ 1,597	\$ 1,448	\$ 1,489	\$ 2,076	\$ 941
Medical .....	5,710	5,561	5,613	5,392	7,535	3,625
Insurance, life and disability .....	2,660	2,701	2,575	2,544	3,579	1,757
Expendables .....	<u>33,275</u>	<u>32,685</u>	<u>31,218</u>	<u>30,651</u>	<u>53,655</u>	<u>23,461</u>
Total noncapital expense .....	(43,212)	(42,544)	(40,854)	(40,076)	(66,845)	(29,783)
Capital .....	<u>4,885</u>	<u>4,982</u>	<u>4,371</u>	<u>4,714</u>	<u>6,197</u>	<u>5,145</u>
Total, living expenses .....	\$ 48,097	\$ 47,526	\$ 45,225	\$ 44,790	\$ 73,042	\$ 34,928
Percentage change, total noncapital living expenses .....	1.6	4.1	1.9	2.0		

<sup>a</sup> Records were sorted into high- and low-third categories according to total noncapital living expenses.