

Farm and Family Living Income and Expenditures

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In 2016, the total noncapital living expenses of 1,333 farm families enrolled in the Illinois Farm Business Farm Management Association (FBFM) averaged \$76,916--or \$6,410 a month for each family (Table 1). This average was 2.1 percent lower than in 2015. Another \$5,344 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 \$82,260 for 2016 compared with \$84,779 for 2015, or a \$2,519 decrease per family. The average amount spent per family for capital items was \$897 less while noncapital expenses decreased \$1,622 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 2007 through 2016.

Income and social security tax payments decreased about 21.4 percent in 2016 compared to the year before. The amount of income taxes paid in 2016 averaged \$25,512 compared to \$32,438 in 2015. Medical expenses were slightly higher in 2016 compared to 2015. In 2016, medical expenses averaged \$11,115. Medical

expenses include out-of-pocket costs for health insurance along with doctor and hospital expenses.

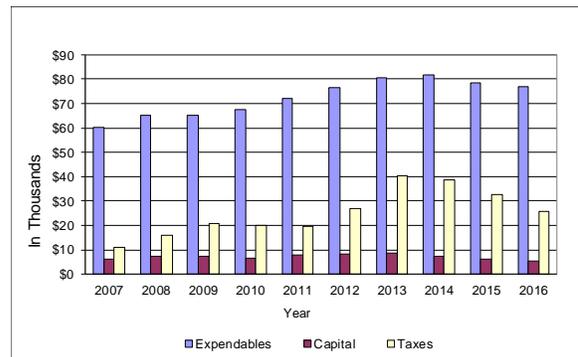


Figure 1. Noncapital and capital family living expenditures and income tax and social security payments, 2007 through 2016

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 2016 net farm income of \$77,700 increased (\$72,512 per farm) compared to 2015. Higher grain and livestock returns were the main reasons for the increase in net farm incomes. Net nonfarm income continues to increase, averaging \$44,503, \$3,841 higher than in 2015 and the highest amount this figure has ever averaged. Net nonfarm income has increased \$12,835, or 41 percent in the last ten years. Net nonfarm income was 36 percent of total household income.

The amount of interest expense paid by each farm operator increased from \$23,961 in 2015 to \$25,936 in 2016. Interest paid as a percentage of farm receipts increased from 3.6 percent to 4.0 percent from 2015 to 2016. The 2007 through 2016 ten-year average is 3.8 percent. The highest that this percentage has been during the last ten years was in 2007 when it was 5.8 percent. As a percentage of cash operating expenses, the interest paid increased to 5.3 percent in 2016. Machinery and building purchases decreased from \$63,852 in 2015 to \$60,026 in 2016. The 2013 machinery and building purchases of \$130,006 were at their highest level ever.

In 2016, the operators of these 1,333 farms averaged 57 years of age. The family averaged 2.6 members, with the age of the oldest dependent child being 17 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 Table 1, the averages per farm for total family living expenses are divided into five categories for 2013 through 2016. The "expendables" category includes cash spent or 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 excess on nonfarm taxable income over nonfarm business expense was \$44,503 in 2016, or 54 percent of the total living expense. 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.

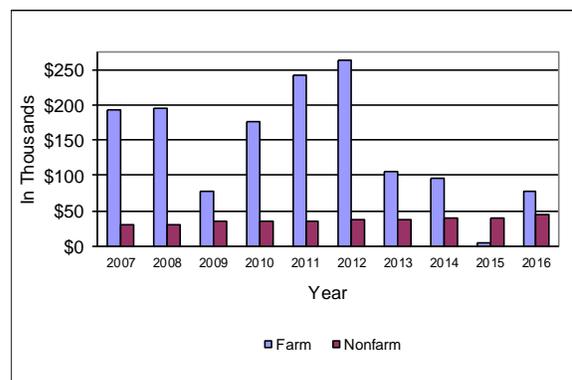


Figure 2. Net farm and nonfarm income, 2007 through 2016.

Figure 2 illustrates that net nonfarm income has been fairly constant over the past ten years. Since 2007, increases in net farm income has resulted in nonfarm income being less of the share of total income, except for 2009, 2013, 2014, 2015 and 2016.

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 \$133,769 compared with \$61,023 for the low-third group. Figure 3 illustrates total living expenses for these two groups for 2007 through 2016. The high-third group had \$274,908 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 income plus nonfarm income was \$194,994 for the high-third group compared with \$112,618 for the low-third group. The average age of operators in the high-third group was 50 and the number of family members was 3.9 compared with 47 years of age and 3.7 family members for the other group.

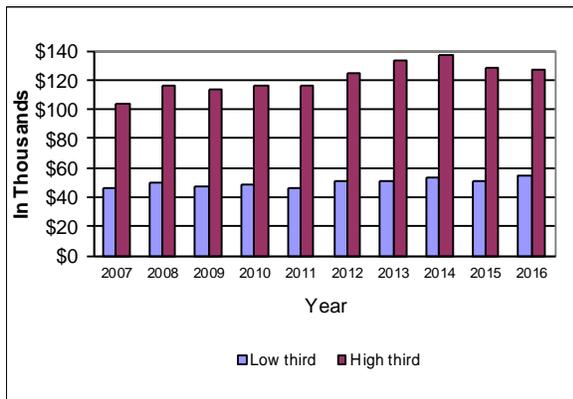


Figure 3. Total family living expenditures for families with three to five people, sorted into high and low thirds according to noncapital living expenses, 2007 through 2016.

Subtracting total living expenses and income and social security taxes paid from the total of net farm income and nonfarm income results in a positive balance of \$25,289 for the high-third group and a positive balance of \$36,998 for the low-third group. Figure 4 illustrates this balance for these two groups for 2007 through 2016.

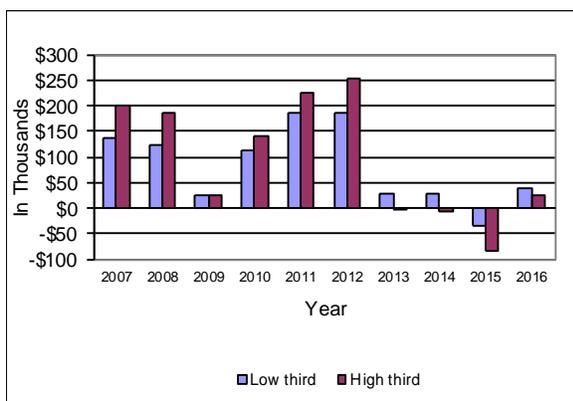


Figure 4. Average of net farm plus nonfarm income minus total family living expenses and income and Social Security taxes paid, sorted into high and low thirds according to noncapital living expenses, 2007 through 2016.

It is interesting to note that for 2013 to 2016 the low-third group had less income than the high-third group, but had more funds remaining after what was spent for family living and taxes. 2013 was the first time this has been negative for either group in the last ten years.

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. FBFM offers these services to help farmers project monthly cash flow so that they can compare projections with their actual results.

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 \$105 for each tillable operator acre farmed. Operator acres are the number of acres the operator receives 100% revenue from. If the net nonfarm income of \$57 per tillable operator acre is used for living, \$48 per tillable operator acre would have to be generated from the farm business to meet family living requirements. In 2015, \$57 per tillable operator acre was needed from the farm business to meet family living requirements. Each family must determine how much each acre of crop 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.

The author would like to acknowledge that data used in this study comes from the local Farm Business Farm Management (FBFM) Associations across the State of Illinois. Without their cooperation, information as comprehensive and accurate as this would not be available for educational purposes.

FBFM, which consists of 5,600 plus farmers and 60 professional field staff, is a not-for-profit organization available to all farm operators in Illinois. FBFM field staff provide on-farm counsel with computerized recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the State FBFM Office located at the University of Illinois Department of

Agricultural and Consumer Economics at 217-333-5511 or visit the FBFM website at www.fbfm.org.

Table 1. *Average Sources and Uses of Funds over a Four-Year Period*

	All records, average per farm			
	2016	2015	2014	2013
Number of farms in sample.....	1333	1377	1350	1307
Age of Operator.....	57	57	56	55
Number in family.....	2.6	2.7	2.7	2.7
Net Farm Income.....	\$77,700	\$5,188	\$95,885	\$105,902
Source of dollars				
Net nonfarm income.....	\$44,503	\$40,662	\$39,676	\$38,019
Money borrowed.....	436,713	449,744	439,315	418,038
Farm receipts.....	641,771	665,466	715,621	736,101
Uses of dollars				
Interest paid.....	\$25,936	\$23,961	\$21,266	\$20,530
Cash operating expenses.....	468,061	494,496	519,618	497,855
Capital farm purchases.....	60,026	63,852	89,020	130,006
Payments on principal.....	438,474	423,513	390,179	365,513
Income and Social Security taxes.....	25,512	32,438	38,801	40,328
Net new savings and investment.....	\$22,718	\$32,833	\$46,792	\$48,796
Living expenses				
Contributions.....	\$3,471	\$3,537	\$3,698	\$3,874
Medical.....	11,115	11,102	11,213	10,417
Insurance, life and disability.....	4,946	4,627	4,626	4,492
Expendables.....	<u>57,385</u>	<u>59,272</u>	<u>62,174</u>	<u>61,933</u>
Total noncapital expense.....	\$76,916	\$78,538	\$81,711	\$80,716
Capital.....	<u>5,344</u>	<u>6,241</u>	<u>7,225</u>	<u>8,414</u>
Total, living expenses.....	\$82,260	\$84,779	\$88,936	\$89,130
Percentage change, total noncapital living expenses.....	-2.1%	-3.9%	1.2%	5.3%

Table 1.cont. Sources and Uses of Funds Sorted by Noncapital Living Expenses for Selected Illinois Farms

	Family of 3 to 5, 2016 ^a	
	High-Third	Low-Third
Number of farms in sample.....	135	135
Age of Operator.....	50	47
Number in family.....	3.9	3.7
Net Farm Income.....	\$136,703	\$68,336
Source of dollars		
Net nonfarm income.....	\$58,291	\$44,282
Money borrowed.....	532,016	331,812
Farm receipts.....	839,276	564,368
Uses of dollars		
Interest paid.....	\$33,611	\$24,207
Cash operating expenses.....	602,912	425,465
Capital farm purchases.....	83,611	55,696
Payments on principal.....	521,283	350,837
Income and Social Security taxes.....	35,936	14,597
Net new savings and investment.....	\$18,461	\$8,637
Living expenses		
Contributions.....	\$5,072	\$2,192
Medical.....	16,004	7,432
Insurance, life and disability.....	6,262	2,842
Expendables.....	<u>99,603</u>	<u>42,792</u>
Total noncapital expense.....	\$126,941	\$55,258
Capital.....	<u>6,828</u>	<u>5,764</u>
Total, living expenses.....	\$133,769	\$61,023

^a Records were sorted into high-third and low-third categories according to noncapital living expenses.