

Farm and Family Living Income and Expenditures

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In 2020, the total noncapital living expenses of 1,088 farm families enrolled in the Illinois Farm Business Farm Management Association (FBFM) averaged \$76,672--or about \$6,400 a month for each family (Table 1). This average was about 2.8 percent lower than in 2019. Another \$4,354 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 \$81,026 for 2020 compared with \$84,340 for 2019, or a \$3,314 decrease per family. The average amount spent per family for capital items was \$1,092 less while noncapital expenses decreased \$2,222 per family. The farms in this sample, 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 2011 through 2020.

Income and social security tax payments decreased 1.3 percent in 2020 compared to the year before. The amount of income taxes paid in 2020 averaged \$24,214 compared to \$24,525 in 2019. Medical expenses were lower in 2020 compared to 2019. In 2020, medical expenses averaged \$10,712. Medical expenses include out-of-

pocket costs for health insurance along with doctor and hospital expenses.

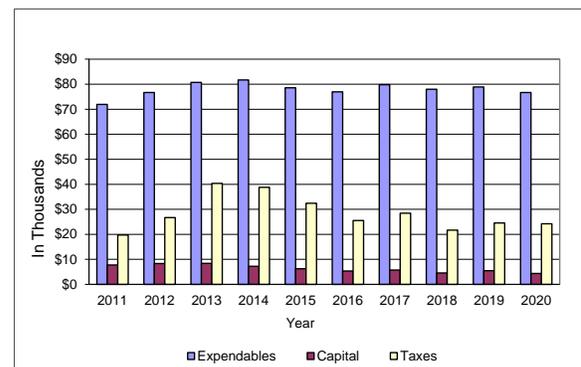


Figure 1. Noncapital and capital family living expenditures and income tax and social security payments, 2011 through 2020

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 2020 net farm income of \$190,112 increased (\$123,117 per farm) compared to 2019. Higher crop returns were the main reason for the increase in net farm incomes. Net nonfarm income increased, averaging \$47,892, \$3,021 higher than in 2019. 2020 was the highest nonfarm income has ever been. Net nonfarm income has increased \$12,438, or 35.1 percent in the last ten years. Net nonfarm income was 20 percent of total household income in 2020.

The amount of interest expense paid by each farm operator increased from \$32,152 in 2019 to \$33,990 in 2020. Interest paid as a percentage of farm receipts increased to 4.47 percent in 2020. The 2011 through 2020 ten-year average is 3.7 percent. The highest that this percentage has been during the last ten years is 2020. As a percentage of cash operating expenses, the interest paid increased to 6.1 percent in 2020. Machinery and building purchases increased from \$94,105 in 2018 to \$116,918 in 2019, then increased to \$119,612 in 2020.

In 2020, the operators of these 1,088 farms averaged 58 years of age. The family averaged 2.6 members, with the age of the oldest dependent child being 18 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 2017 through 2020. 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 \$47,892 in 2020, or 59 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.

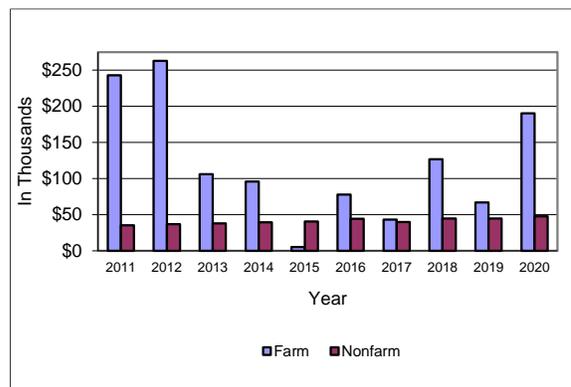


Figure 2. Net farm and nonfarm income, 2011 through 2020.

Figure 2 illustrates that net nonfarm income has been fairly constant over the past ten years. Since 2011, increases in net farm income has resulted in nonfarm income being less of the share of total income, except for 2015.

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 \$136,366 compared with \$55,146 for the low-third group. Figure 3 illustrates total living expenses for these two groups for 2011 through 2020. The high-third group had \$475,879 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 \$345,337 for the high-third group compared with \$178,692 for the low-third group. The average age of operators in the high-third group was 49 and the number of family members was 4.1 compared with 47 years of age and 3.8 family members for the other group.

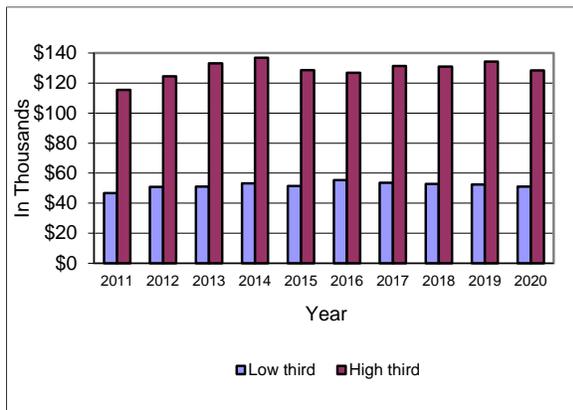


Figure 3. Total family living expenditures for families with three to five people, sorted into high and low thirds according to noncapital living expenses, 2011 through 2020.

Subtracting total living expenses and income and social security taxes paid from the total of net farm income and nonfarm income results in a \$178,550 for the high-third group and another \$111,997 for the low-third group for the year of 2020. Figure 4 illustrates this balance for these two groups for 2011 through 2020.

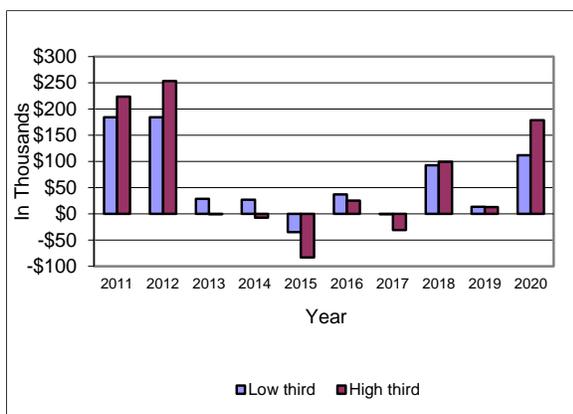


Figure 4. Average of net farm plus nonfarm income minus total family living expenses and income and Social Security taxes paid, sorted into high and low thirds according to noncapital living expenses, 2011 through 2020.

It is interesting to note that for 2013 to 2017 as well as 2019 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 \$97 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, \$40 per tillable operator acre would have to be generated from the farm business to meet family living requirements. In 2019, \$47 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 farms across the State of Illinois enrolled in Illinois Farm Business Farm Management (FBFM) Association. Without their cooperation, information as comprehensive

and accurate as this would not be available for educational purposes. FBFM, which consists of 5,000 plus farmers and 68 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 Headquarters located at the

University of Illinois Department of Agricultural and Consumer Economics at 217-333-8346 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 | | | |
|--|-------------------------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2018 | 2017 |
| Number of farms in sample..... | 1088 | 1257 | 1306 | 1219 |
| Age of Operator..... | 58 | 58 | 58 | 57 |
| Number in family..... | 2.6 | 2.6 | 2.6 | 2.7 |
| Net Farm Income..... | \$190,112 | \$66,995 | \$126,623 | \$43,464 |
| Source of dollars | | | | |
| Net nonfarm income..... | \$47,892 | \$44,871 | \$44,727 | \$40,032 |
| Money borrowed..... | 554,899 | 482,506 | 462,935 | 436,668 |
| Farm receipts..... | 760,954 | 763,395 | 696,024 | 629,765 |
| Uses of dollars | | | | |
| Interest paid..... | \$33,990 | \$32,152 | \$28,399 | \$26,753 |
| Cash operating expenses..... | 523,583 | 521,044 | 482,504 | 465,386 |
| Capital farm purchases..... | 119,612 | 116,918 | 94,105 | 64,165 |
| Payments on principal..... | 521,941 | 472,485 | 456,975 | 409,807 |
| Income and Social Security taxes..... | 24,214 | 24,525 | 21,692 | 28,435 |
| Net new savings and investment..... | \$59,379 | \$39,308 | \$37,433 | \$26,377 |
| Living expenses | | | | |
| Contributions..... | \$2,947 | \$3,085 | \$3,081 | \$3,575 |
| Medical..... | 10,712 | 10,866 | 11,647 | 12,007 |
| Insurance, life and disability..... | 5,093 | 5,174 | 4,876 | 4,945 |
| Expendables..... | <u>57,920</u> | <u>59,769</u> | <u>58,395</u> | <u>59,271</u> |
| Total noncapital expense..... | \$76,672 | \$78,894 | \$77,999 | \$79,798 |
| Capital..... | <u>4,354</u> | <u>5,446</u> | <u>4,579</u> | <u>5,744</u> |
| Total, living expenses..... | \$81,026 | \$84,340 | \$82,578 | \$85,542 |
| Percentage change, total noncapital living expenses..... | -2.8% | 1.1% | -2.3% | 3.7% |

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

| | Family of 3 to 5, 2020 ^a | |
|---------------------------------------|-------------------------------------|---------------|
| | High-Third | Low-Third |
| Number of farms in sample..... | 105 | 105 |
| Age of Operator..... | 49 | 47 |
| Number in family..... | 4.1 | 3.8 |
| Net Farm Income..... | \$280,593 | \$138,202 |
| Source of dollars | | |
| Net nonfarm income..... | \$64,744 | \$40,490 |
| Money borrowed..... | 868,275 | 463,358 |
| Farm receipts..... | 1,098,778 | 622,899 |
| Uses of dollars | | |
| Interest paid..... | \$47,493 | \$33,489 |
| Cash operating expenses..... | 744,611 | 439,787 |
| Capital farm purchases..... | 187,716 | 113,844 |
| Payments on principal..... | 811,770 | 458,964 |
| Income and Social Security taxes..... | 30,421 | 11,549 |
| Net new savings and investment..... | \$73,420 | \$13,968 |
| Living expenses | | |
| Contributions..... | \$4,222 | \$1,462 |
| Medical..... | 16,314 | 5,761 |
| Insurance, life and disability..... | 6,227 | 3,486 |
| Expendables..... | <u>101,701</u> | <u>40,285</u> |
| Total noncapital expense..... | \$128,464 | \$50,994 |
| Capital..... | <u>7,902</u> | <u>4,152</u> |
| Total, living expenses..... | \$136,366 | \$55,146 |

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