

Farm and Family Living Income and Expenditures

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In 2018, the total noncapital living expenses of 1,306 farm families enrolled in the Illinois Farm Business Farm Management Association (FBFM) averaged \$77,999--or \$6,500 a month for each family (Table 1). This average was about 2.3 percent lower than in 2017. Another \$4,579 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 \$82,578 for 2018 compared with \$85,542 for 2017, or a \$2,964 decrease per family. The average amount spent per family for capital items was \$1,165 less while noncapital expenses decreased \$1,799 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 2009 through 2018.

Income and social security tax payments decreased about 23.7 percent in 2018 compared to the year before. The amount of income taxes paid in 2018 averaged \$21,692 compared to \$28,435 in 2017. Medical expenses were lower in 2018 compared to 2017. In 2018, medical expenses averaged \$11,647. Medical expenses include out-of-

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

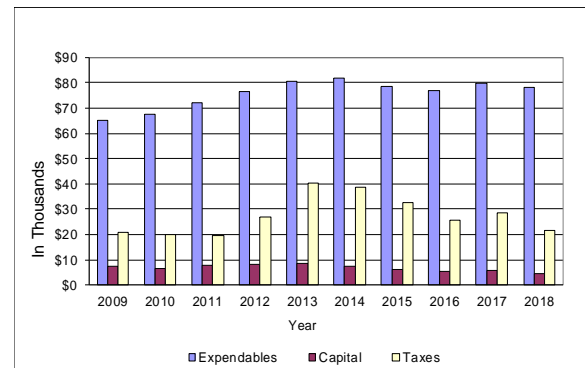


Figure 1. Noncapital and capital family living expenditures and income tax and social security payments, 2009 through 2018

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 2018 net farm income of \$126,623 increased (\$83,159 per farm) compared to 2017. Higher crop returns were the main reason for the increase in net farm incomes. Net nonfarm income increased, averaging \$44,727, \$4,695 higher than in 2017. 2018 was the highest nonfarm income has ever been. Net nonfarm income has increased \$10,160, or 29.4 percent in the last ten years. Net nonfarm income was 26 percent of total household income in 2018.

The amount of interest expense paid by each farm operator increased from \$26,753 in 2017 to \$28,399 in 2018. Interest paid as a percentage of farm receipts remained steady at an average rate of 4 percent between 2017 and 2018. The 2008 through 2017 ten-year average is 3.6 percent. The highest that this percentage has been during the last ten years was in 2017 when it was 4.3 percent. As a percentage of cash operating expenses, the interest paid increased to 5.6 percent in 2018. Machinery and building purchases increased from \$60,026 in 2016 to \$64,165 in 2017, then increased to \$94,105 in 2018.

In 2018, the operators of these 1,306 farms averaged 58 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 2015 through 2018. 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 \$44,727 in 2018, 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.

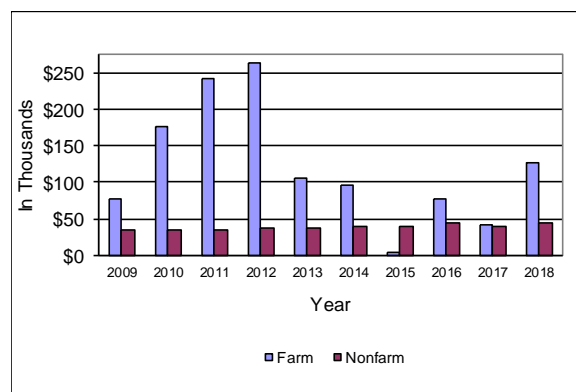


Figure 2. Net farm and nonfarm income, 2009 through 2018.

Figure 2 illustrates that net nonfarm income has been fairly constant over the past ten years. Since 2009, 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 \$138,785 compared with \$57,171 for the low-third group. Figure 3 illustrates total living expenses for these two groups for 2009 through 2018. The high-third group had \$339,510 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 \$264,976 for the high-third group compared with \$167,231 for the low-third group. The average age of operators in the high-third group was 50 and the number of family members was 4.0 compared with 48 years of age and 3.8 family members for the other group.

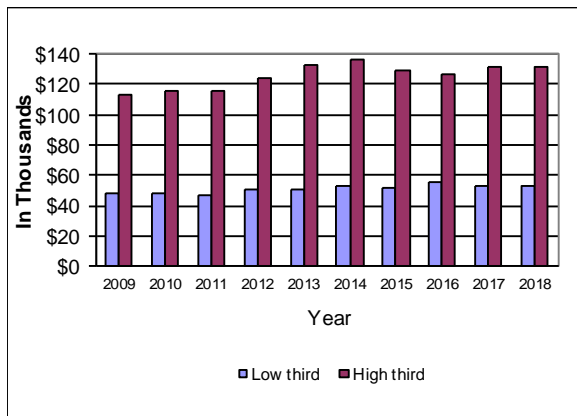


Figure 3. Total family living expenditures for families with three to five people, sorted into high and low thirds according to noncapital living expenses, 2009 through 2018.

Subtracting total living expenses and income and social security taxes paid from the total of net farm income and nonfarm income results in a \$99,651 for the high-third group and another \$92,620 for the low-third group for the year of 2018. Figure 4 illustrates this balance for these two groups for 2009 through 2018.

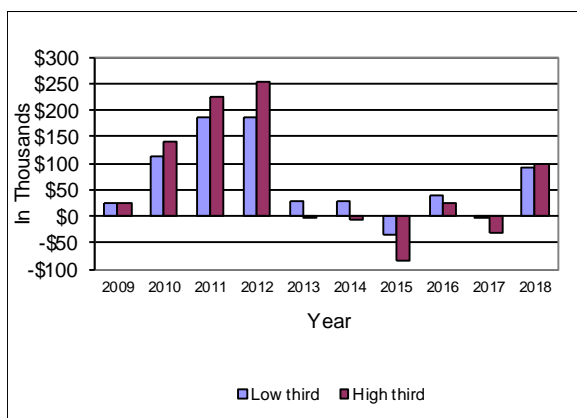


Figure 4. Average of net farm plus nonfarm income minus total family living expenses and income and Social Security taxes paid, sorted into high and low thirds according to noncapital living expenses, 2009 through 2018.

It is interesting to note that for 2013 to 2017 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 \$103 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 \$56 per tillable operator acre is used for living, \$47 per tillable operator acre would have to be generated from the farm business to meet family living requirements. In 2017, \$58 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 5,500 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 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			
	2018	2017	2016	2015
Number of farms in sample.....	1306	1219	1333	1377
Age of Operator.....	58	57	57	57
Number in family.....	2.6	2.7	2.6	2.7
Net Farm Income.....	\$126,623	\$43,464	\$77,700	\$5,188
Source of dollars				
Net nonfarm income.....	\$44,727	\$40,032	\$44,503	\$40,662
Money borrowed.....	462,935	436,668	436,713	449,744
Farm receipts.....	696,024	629,765	641,771	665,466
Uses of dollars				
Interest paid.....	\$28,399	\$26,753	\$25,936	\$23,961
Cash operating expenses.....	482,504	465,386	468,061	494,496
Capital farm purchases.....	94,105	64,165	60,026	63,852
Payments on principal.....	456,975	409,807	438,474	423,513
Income and Social Security taxes.....	21,692	28,435	25,512	32,438
Net new savings and investment.....	\$37,433	\$26,377	\$22,718	\$32,833
Living expenses				
Contributions.....	\$3,081	\$3,575	\$3,471	\$3,537
Medical.....	11,647	12,007	11,115	11,102
Insurance, life and disability.....	4,876	4,945	4,946	4,627
Expendables.....	<u>58,395</u>	<u>59,271</u>	<u>57,385</u>	<u>59,272</u>
Total noncapital expense.....	\$77,999	\$79,798	\$76,916	\$78,538
Capital.....	<u>4,579</u>	<u>5,744</u>	<u>5,344</u>	<u>6,241</u>
Total, living expenses.....	\$82,578	\$85,542	\$82,260	\$84,779
Percentage change, total noncapital living expenses.....	-2.3%	3.7%	-2.1%	-3.9%

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

	Family of 3 to 5, 2018 ^a	
	High-Third	Low-Third
Number of farms in sample.....	129	129
Age of Operator.....	50	48
Number in family.....	4.0	3.8
Net Farm Income.....	\$211,873	\$136,316
Source of dollars		
Net nonfarm income.....	\$53,103	\$30,915
Money borrowed.....	687,266	378,256
Farm receipts.....	997,540	658,030
Uses of dollars		
Interest paid.....	\$37,891	\$27,402
Cash operating expenses.....	671,731	447,009
Capital farm purchases.....	153,690	95,104
Payments on principal.....	671,237	385,194
Income and Social Security taxes.....	26,540	17,440
Net new savings and investment.....	\$38,035	\$37,881
Living expenses		
Contributions.....	\$4,447	\$2,009
Medical.....	17,696	5,721
Insurance, life and disability.....	6,774	2,560
Expendables.....	<u>102,147</u>	<u>42,515</u>
Total noncapital expense.....	\$131,064	\$52,805
Capital.....	<u>7,721</u>	<u>4,366</u>
Total, living expenses.....	\$138,785	\$57,171

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