

## Farm and Ranch Family Living Expenses — Taking Control

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This NebGuide discusses how farm and ranch families can control their living expenses by using a budget or a cash flow plan.

One of the facts of life for farm and ranch families is income irregularity, either in amount and/or timing of income. With few exceptions, income varies from year to year and is usually received following harvest or the sale of livestock at prices often different than expected.

Developing a plan for managing family living expenses has special challenges:

- Family housing expenditures, such as mortgage and utility bills, often seem lower than for families not living on a farm or ranch. Such costs are considered at least in part as business expenses.
- Food expenditures may be lower for families that produce some of their own meat, dairy, fruit, or vegetables.
- Adequate insurance protection is usually more costly as there is no employer to pay part of the insurance premiums. And the need for insurance is often greater since agricultural producers face a greater risk of injury, disability, or death.
- There is strong competition between the business enterprise and family needs for use of cash.
- Household expenses are small compared to business expenses. Having only one checking account makes it more difficult to control family living expenses.
- Some of the expenses for family living can be considered legitimate business expenses, including farm vehicles, office equipment, and business-related travel, but can be used for non-business purposes as well.
- Transportation expenses may be higher for farm and ranch families because of greater distances to reach community services.

To establish better control of living expenses, farm and ranch families are encouraged to have open communication,

set goals, develop and use a plan such as a cash flow plan or budget, and keep records to separate family living expenses from those of the business.

### Open Communication

Gaining better control of family living expenses requires frank, open discussion involving all family members. If everyone is included in the discussion, each person will be more committed to the outcome by being more sensitive to how money is spent and what each person can do to help assure success. Don't be tempted to skip this critical step. Consider it the foundation for taking control of living expenses.

### Set Goals

Setting family financial goals is a tough but essential task. Think of it as developing and using a road map to help the family reach what it wants to achieve. Goals provide the reason for developing a budget or cash flow plan, and for doing the record keeping to be sure the plan stays on track. Effective financial goals have four essential components:

1. Identify the goal.
2. Define when you want to reach the goal.
3. Specify the amount of money needed to reach the goal.
4. Calculate the amount of money to save monthly, quarterly, or annually.

Here's a sample goal-setting worksheet:

Goal	Date Wanted	Money Needed	Amount to Save: Annually, Monthly, or Quarterly
		\$	\$
		\$	\$
			\$
TOTAL		\$	

Decide the best action plan for your family. Is it better to set aside a certain amount of money for goals each month? This may work best if there is also a regular source of income such as an off-farm/ranch job. Or will money for goals be set aside quarterly or annually when income is received from selling grain or animals? This plan may work best for those producers with more erratic income. Just don't leave the goal-related funds as last on the list of things to buy/pay when income is received.

It also may help to think of goals as short-term or long-term. Short-term goals are those you hope to fund in the coming year or so, while long-term goals will take several years and substantial funds to accomplish. Examples of short-term goals include adding insulation to the house to cut utility bills, a new refrigerator, or a family trip. Long-term goals include retirement, paying off the farm/ranch, or saving for children's education.

### **Develop a Plan and Use It**

Once you know where you want to go (your goals), you need to develop a plan for controlling family living expenses so you can get there. That plan can be either a traditional budget or a cash flow plan. A budget is a list of anticipated income and expenses. A cash flow plan has the extra advantage of defining the timing of both income and expenses. It's easier to adjust anticipated expenses to match anticipated income with a cash flow plan.

More information about how to work with a cash flow plan for family living expenses is available in NebGuide G1789, *Planning and Tracking Income and Expenses Through Time: Cash Flow Planning*.

Determine when money will be transferred from the business account into the family living account. Use those dates as the beginning day of each planning period. Planning on a monthly basis may not work if your income is anticipated less often. Set planning periods by the dates when income is anticipated.

If you don't know the pattern of your family living expenses, you may need to keep track of all expenses for a month or two. All family members will be responsible for tracking their expenses and reporting them. If you use the services of an accountant or a computerized record keeping service, computer printouts can help identify how money has been spent in the past.

### **OOPS! More Expenses Than Income?**

If expenses are more than income, the family has two options: find more income and/or cut expenses.

When reducing expenses, decide which ones are essential for physical/mental health and safety. Other expenses probably would be nice but not essential. These are the ones to reduce first. If essential expenses must be reduced, rank them from most to least important.

Another way to think of expenses is fixed and variable. Fixed expenses such as credit payments and insurance premiums will be harder to reduce than variable expenses such as home repairs, utilities, and food.

Finding more income may seem almost impossible for farm and ranch families. But think of increasing income as more than increasing production. Sending a family member into the labor force at least temporarily, increasing home production of necessities, selling unneeded or unused items, and even receiving public or private assistance, if qualified, are other ways to add money into the cash flow.

If you have reduced expenses and increased income as much as you are able, you may need assistance from someone else to find other alternatives. The local extension office, pastor or minister, or family service agency might be a place to start.

Consult NebGuide G1827, *Solving Financial Problems* for more suggestions.

### **Record Keeping**

Many people can come up with beautiful, workable plans for balancing income and expenses. But the hard work really comes in putting that plan into action. To stay on track with the plan requires keeping track of both income and expenses, regular review of records to identify where adjustments need to be made, and following through on adjustments. Open an account just for family living expenses to keep those expenses separate from business expenses and to help you track family living spending.

### **Budgets Can Work if You Let Them**

While a budget or cash flow plan cannot perform miracles, it can help you see where you are now financially and help you get to where you want to be in the future. Set goals as the foundation for the plan as well as helping provide the motivation for sticking with it. Develop and use the plan to manage income and expenses. Track actual income and expenses and continue to adjust your plan throughout a planning period. Commitment and discipline over time will pay off as control of family living expenses increases and goals are met.

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