

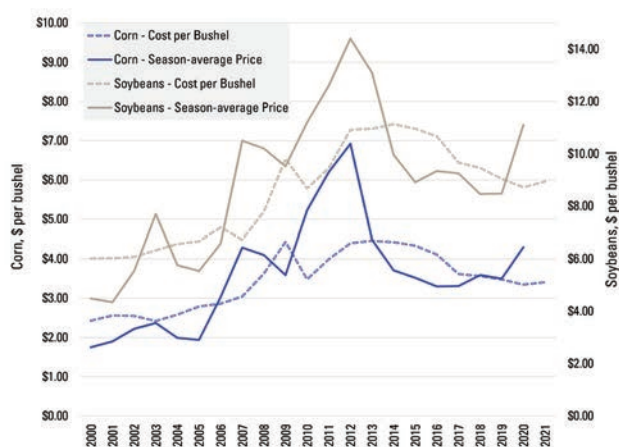
# Benchmarking Family Living Expenses in Agriculture

Family living is one of the easiest expenses to overlook and is identified as the most complicated to measure and monitor. In this publication we review what is included in Farm Family Living Expenses, strategies for expense tracking, and how to benchmark using midwest agricultural farm association data.

## Are farm families the same or different from non-farm families?

Farming and ranching are complex, technical enterprises that must work in a risk environment unlike almost any other industry. Differences between farm and non-farm families can be found in the **investment required and risks managed to create farm income. This potential for irregular and uncertain income complicates family living expenses in agriculture.** Cash grain operations sell the crops produced, and the likelihood of those sales being in even intervals and at the same levels is quite low. As Figure 1 indicates, farm income is irregular and uncertain from year-to-year and crop-to-crop, as production levels vary. In the last five years, both corn and soybeans had multiple years where the estimated cost of production was lower than the marketing year average. Some livestock enterprises result in a steadier income stream while others, like cattle feeding, can quickly swing from large profits to large losses.

**Figure 1. Iowa Corn and Soybean Costs of Production compared to Season-average Prices**



Source: ISU Cost of Crop Production; USDA NASS

## Are farm family living expenses competing for equity?

**Farm family needs may compete with the business enterprise for cash.** A tension exists in farm businesses between minimizing or eliminating federal income tax obligations and maximizing after tax equity growth. Purchases made to take advantage of expense method depreciation have resulted in debt that must be serviced through after-tax profits. When profits are slim or losses are incurred, **Owner Withdrawals** compete for their share of the profits against the principal portion of debt service and add to the need to consume working capital or trigger a need to refinance. **Family living expenses have come under the spotlight as reports from various Farm Business Management Associations showed an inability of average farming operations to cover family living expenses.**

Even without debt to service, the level of profit from the farm or off-farm income required for family living can be a challenge. Families may struggle to get their family living costs to a manageable level. **Regardless of farm size or organizational structure, all farm families need to determine whether and at what level family living costs may be competing for equity.**

## What are farm family living expenses?

**Family living expenses** is a common term for non-business **Owner Withdrawals** from the farm business, but they are not the same. Personal taxes, purchases of personal assets, and other non-business expenditures are not included in family living expenses. As you read this publication, consider your use of the term. When you think of family living expenses are you including all non-business expenditures?

Written January 2022

**Family Living Expenses.** A term not recommended for use. See owner withdrawals.

**Owner Withdrawals.** The payments made to the owners of a business from the accumulated earnings of that business. The distributions to owners are given different names depending on the organizational structure of the business.

Financial Guidelines for Agriculture, Farm Financial Standards Council

## How do you measure family living expenses, to see whether they are under control or not?

If a record-keeping system isn't in place, the first step could be to focus on and **calculate Owner Withdrawals used for family living**; and allocate those expenditures to the simple categories of family living expenses, personal taxes, purchase of personal assets, and other non-business items.

Another quick control strategy is to **designate a household bank account** separate from business expenditures for only family living expenses. This would provide both real-time family expense amounts and document Owner Withdrawal transfers that were necessary to pay for family costs.

**Choosing categories** (Table 1) for family living expenditures and **tracking cash spent** for those categories in a record-keeping system provides the needed data.

Six examples of tracking methods include: receipt, calendar, envelope, checkbook, account book or computer software program, see Iowa State University Extension and Outreach publication PM 1918: [Tracking Your Spending](#), store.extension.iastate.edu/Product/5518. Sherraden (2013) indicates when households use financial management behaviors that include tracking expenses they make better decisions for their families, increasing their economic security and wellbeing. [Managing Farm Family Finances](#), www.extension.iastate.edu/agdm/wholefarm/pdf/c3-51.pdf, discusses methods for establishing a system to designate a portion of farm sales for family use (i.e., 10% of gross income).

With accurate measurement in place the next step is to benchmark family living expenses for comparison. Farm families can then determine whether their costs are already well managed or they have room for improvement.

## What family living expense data can be used for comparison?

None of the available data sets can provide exactly apples-to-apples comparisons, with differences in expenses included or categories reported across all. However, using the multiple data sources detailed below and in the Decision Tool, [Farm Family Living Benchmarking](#), www.extension.iastate.edu/agdm/wholefarm/xls/c3-66familylivingbenchmark.xlsx, helps to measure and compare expenses.

**Family living cost data from the Bureau of Labor Statistics** can be one source to establish a benchmark for comparison. The average annual expenditures for a midwest consumer, according to [Table 1800](#), www.bls.gov/cex/tables/geographic/mean/cu-region-2-year-average-2020.pdf, was \$59,789 in 2020, a 12% increase from 2015. Note that the Bureau of Labor Statistics does not include personal taxes in their expenditures.

**Family living cost data from Farm Business Associations** of many neighboring states have members who record their family living expenses. This data is accessible through [FINBIN](#), https://finbin.umn.edu, from the Center for Farm Financial Management, University of Minnesota. When looking at these sources, be sure to compare the Owner Withdrawals numbers to include purchases of personal assets, and other non-business expenditures.

**Family living cost data from Economic Policy Institute:** The [Family Budget Calculator](#), www.epi.org/resources/budget, measures the income a family needs in order to attain a modest yet adequate standard of living. The budgets estimate community-specific costs for ten family types (one or two adults with zero to four children) in all counties and metro areas in the United States.

**Table 1. Comparison of family living expenditure categories**

<b>Bureau of Labor Statistics Summary Categories, from the Consumer Expenditure Survey* (80 additional subcategories)</b>	<b>Southwest Minnesota Farm Business Management Association, Missouri Farm Business Management Association, and Nebraska Farm Business, Inc.</b>	<b>Kansas Farm Management Association</b>
<p><b><u>AVERAGE ANNUAL EXPENDITURES</u></b></p> <p><b>Food:</b> Food at home Food away from home</p> <p><b>Housing:</b> Shelter Utilities, fuel, public services Household operations Housekeeping services Household furnishings and equipment</p> <p><b>Apparel and Services</b></p> <p><b>Transportation:</b> Vehicle purchases Gasoline, other fuels, and motor oil</p> <p><b>Healthcare:</b> Health insurance</p> <p><b>Entertainment</b></p> <p><b>Education</b></p> <p><b>Cash Contributions</b></p> <p><b>Personal insurance and pension:</b> Life and other personal insurance Pensions and Social Security</p>	<p><b><u>FAMILY LIVING EXPENSES</u></b></p> <p>Food and meals expense Medical care Health insurance Cash donations Household supplies Clothing Personal care Child/dependent care Alimony and child support Gifts Education Recreation Utilities (household share) Personal vehicle operating expense Household real estate taxes Dwelling rent Household repairs Personal interest Disability / Long-term care insurance Life insurance payments Personal property insurance Miscellaneous</p> <p><b><u>OTHER NONFARM EXPENDITURES</u></b></p> <p>Income taxes Furnishing and appliance purchases Nonfarm vehicle purchases Nonfarm real estate purchases Other nonfarm capital purchases Nonfarm savings and investments</p>	<p><b><u>FAMILY LIVING EXPENSES</u></b></p> <p>Food purchased Household operation House upkeep &amp; repairs Furniture–equipment Personal–recreation Education Child care Clothing Gifts Contributions Doctor – other medial Health insurance Life insurance Auto expense Utilities – telephone Bank interest Miscellaneous expense</p> <p><b><u>TAXES</u></b></p> <p>Income–Self-employment tax</p>
<p>* Tax categories are listed separate from consumer expenditures.</p>		

See the Ag Decision Maker article [Farm Business Association data on farm family living expenses](https://www.iaastate.edu/VEWKSV), go.iaastate.edu/VEWKSV, for more details on farm family living expenses from midwest states.

### Which benchmarks for comparison can help manage farm family expenses?

Benchmarks are guidelines or ‘rules of thumb’ for business industries and personal finance. Benchmarking is a process to measure and compare internally (year-to-year comparisons) or externally (peer comparisons). Peer comparisons could be based on farm gross income, household size, age of operator or farm size and helps compare family living costs to similar operations. Benchmarking family living costs assists in decision making, goal setting, and reveals strengths and weaknesses.

For example, consider that the average family living expense was \$35,000 per year during the early 2000s from the Kansas Farm Management Association data (KFMA) (Figure 2). This summary was aggregated across 1,000 farm operations and is an excellent source of financial trends for comparison. Correlating with the farm economy boom, KFMA data shows farm family living expenses also turned higher and peaked at \$74,400 in 2014. It has since retracted and stabilized around \$70,000 annually. Total average living expense for KFMA farm families was \$71,900 in 2020 the

latest data available (\$5,992 per month). The range was a high of \$90,600 for a family size of 4.3 with teenagers to a low of \$66,620 for family size of 3.8 with toddlers.

The Decision Tool, [Farm Family Living Benchmarking](#), [www.extension.iastate.edu/agdm/wholefarm/xls/c3-66familylivingbenchmark.xlsx](http://www.extension.iastate.edu/agdm/wholefarm/xls/c3-66familylivingbenchmark.xlsx), uses multiple data sets and allows:

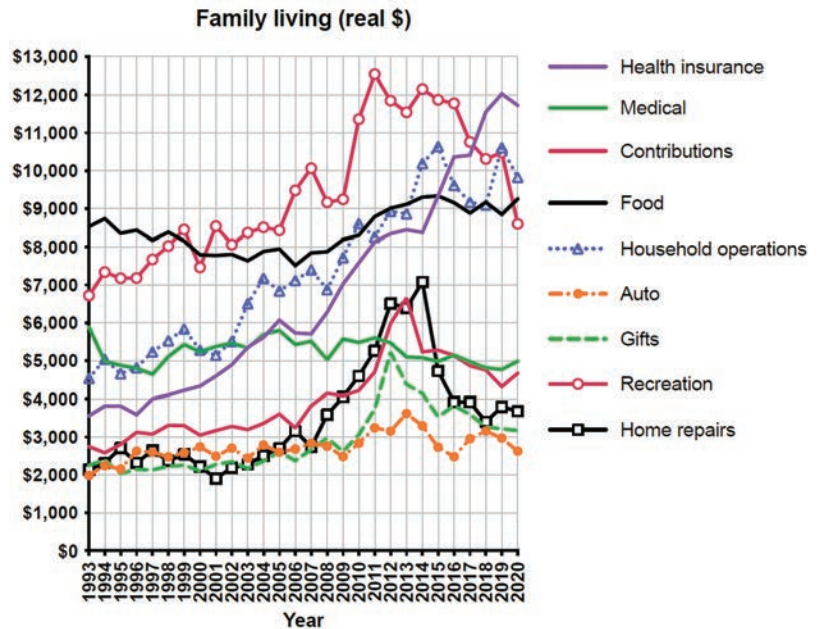
1. a monthly comparison against one's own previous year's records,
2. comparison to financial standards, and
3. matches personal spending up against other farm family association data based on Crop acres farmed total, Gross Farm Income, Age of Operator, Bureau of Labor Statistics (farm/non-farm) or Your data (Figure 3).

In the shaded columns on the right portion of the tool (Figure 4), you can see what percent of income each category is used, this can be compared to suggested percentages of income from Utah State Extension's [PowerPay](#), [extension.usu.edu/powerpay](http://extension.usu.edu/powerpay), and the [Bureau of Labor Statistics](#), [bls.gov/cex](http://bls.gov/cex).

### Are farm family living EXPENSES the same or different from non-farm families?

**Farm families are like non-farm families when it comes to most Necessary Living Expenses: food, clothing, transportation, and housing.** This contradicts the perception that farmers being closer to sources of food results in farm family living budgets being significantly different; like the inclusion of "home raised" meats, vegetables, and fruits. Expenditures for food eaten at home may not differ between farm and non-farm families.

**Figure 2. Family living expense items from 1993 through 2020 (real \$)**



Source: Gregg Ibendahl, Kansas State University, An Analysis of Family Living in Kansas for 2020

When it comes to **housing**, there is a range of farm family living arrangements from a relatively new home to an older farmhouse. Like other homeowners, the purchase of a home tends to be an infrequently made decision with a long-term commitment. Unlike other homeowners, the farm family's home may be on an active farmstead. As a result, the sale of the home and purchase of a different home could be disruptive to farm business activities.

Farm families are quite similar to non-farm families when it comes to **luxury consumption**. Second homes, recreational vehicles and extravagant vacations are easy to identify as being unnecessary to the sustenance of life. A more difficult area of distinction between wants and needs, or luxury and normal consumption, is a set of smart phones requiring data plans for the entire family, streaming entertainment packages, and consumption of food away from home.

**Figure 3. Category choices from the Family Living Benchmark Decision Tool**

**Farm Family Living Benchmarking (Monthly)** Ag Decision Maker C3-66

Ag Decision Maker -- Iowa State University Extension and Outreach

For more information on benchmarking family living, see Information File C3-66, [Benchmarking Family Living Expenses in Agriculture](#)

Enter your data in unprotected, shaded cells.

**STEP 1: What would you like to compare your family living expenses to?**

Select from menus to compare to average farm operations, average households (farm/non-farm) by region, or to previous internal data.

Benchmarks are included by subcategory where available, otherwise data is by main category.

Crop acres farmed, total	Less than 100
Gross Farm Income	101-250
Age of Operator	251-500
Bureau of Labor Statistics (farm/non-farm)	501-1000
Your data	1001-1500
	1501-2000
	Over 2000

**Figure 4. Necessary living expense categories in the Family Living Benchmark Decision Tool**

Necessary Living Expenses	Actual Paid	Benchmarked Expenses	Difference	% of Income	PowerPay (Utah State University Extension)	Bureau of Labor Statistics - Midwest
<b>Housing</b>						
Rent or mortgage (home only)	\$400.00	10.42				
Utilities, telephone, cellphone, internet (household share)	300.00	249.42				
Supplies	150.00	576.00				
Maintenance, repairs, tools, renovations	138.00	161.92				
Nonfarm real estate taxes	0.00	53.50				
Other, personal property insurance	0.00	42.00				
<b>Total Housing</b>	<b>\$988.00</b>	<b>\$1,093.25</b>	<b>-105.25</b>	<b>16%</b>	<b>33-35%</b>	<b>31%</b>
<b>Food</b>						
At home	400.00					
Away from home	100.00					
<b>Total Food</b>	<b>\$500.00</b>	<b>\$782.75</b>	<b>-282.75</b>	<b>8%</b>	<b>18-25%</b>	<b>13%</b>
<b>Transportation</b>						
Fuel	200.00					
Repairs, maintenance	50.00					
Auto insurance	350.00					
Other, parking fees	0.00					
<b>Total Transportation</b>	<b>\$600.00</b>	<b>\$304.17</b>	<b>295.83</b>	<b>10%</b>	<b>9-12%</b>	<b>16%</b>
<b>Total Clothing</b>	<b>400.00</b>	<b>\$197.50</b>	<b>202.50</b>	<b>6%</b>	<b>6-12%</b>	<b>4%</b>
<b>TOTAL NECESSARY LIVING</b>	<b>\$2,488.00</b>	<b>\$2,377.67</b>	<b>-\$110.33</b>	<b>40%</b>		
Necessary living expenses as percent of total income	40%	<i>Maximum recommended total necessary living expenses: 75%</i>				

**Health care** is an area of expense that continues to grow. Health insurance expenses increase over time and health care expenses increase with age. Off-farm employment provides farm families with cash income. After cash income, a deciding benefit is often access to lower cost group health insurance. Cash and non-cash costs of off-farm employment are not the focus of this publication, but it is important to note that some operations could not exist without the off-farm income of one or more members of the family while other farm operations have no off-farm income.

### How to adjust and manage?

The goal isn't to minimize family living expenses, but to identify what is going well and if there are any adjustments that are needed. A distinct difference between farm and non-farm families is the expectation of an equivalent decrease in family living expenses when profits are small or non-existent. That may or may not be possible.

### Questions to Stimulate Discussion

The following questions can provide direction for the family’s discussion concerning family living expenses using the Decision Tool, [Farm Family Living Benchmarking](http://www.extension.iastate.edu/agdm/wholefarm/xls/c3-66familylivingbenchmark.xlsx), [www.extension.iastate.edu/agdm/wholefarm/xls/c3-66familylivingbenchmark.xlsx](http://www.extension.iastate.edu/agdm/wholefarm/xls/c3-66familylivingbenchmark.xlsx).

1. What expense categories are less than other benchmarked comparisons? Consider why this is true for you and how this difference might allow for increased savings.
2. What expenses are in excess of benchmarks and how that impacts individual or family needs or expectations? Consider a conversation around:
  - managing with one less vehicle to reduce fuel, repairs, insurance and other transportation costs,
  - reviewing the utility use and costs for needed household renovations,
  - short-term “tracking” costs of all food, drinks, and meals eaten away from home to set family goals for this expense category.
3. Using the Analysis section (example shown in Figure 5) consider talking about:
  - Cash flow: are we spending more than our available income or budgeted owner withdrawal?

- Based on our farm size: how do we compare with how much is being spent for family living per acre?
- Based on our family size: how much is being spent per person per month and how do we compare with other farm families?
- Savings and retirement: will there be adequate income for future needs?
- Off-farm income: does this show the need for additional income from non-farm sources?

### Next Steps: Family Living Expenses Are Complicated

The goal isn’t to reduce the quality of family living; but to identify what is under control and what needs adjustment. Communication is key when addressing issues or changes that may need made to family living expenses. [Managing Family Farm Finances](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c3-51.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c3-51.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c3-51.pdf), can provide more points to consider when building a family living budget and further resources for improving communication can also be found on the [Ag Decision Maker website](http://www.extension.iastate.edu/agdm/wdhumanresources.html#relationships), [www.extension.iastate.edu/agdm/wdhumanresources.html#relationships](http://www.extension.iastate.edu/agdm/wdhumanresources.html#relationships).

**Next steps may include: calculate owner withdrawals used for family living.** How much family expense competes with the business enterprise for cash? Identification of luxury consumption could help to find easy expenditures to cut.

**Figure 5. Budget analysis in the Family Living Benchmark Decision Tool**

Budget Analysis				
Cash Flow	Actual	Benchmark	Difference	Annual
Total Monthly Income	\$6,250.00			\$75,000
Total Monthly Expenses	\$7,210.00	\$9,754.20	-\$2,544.20	\$86,520
<b>Net Cash Flow</b>	<b>-\$960.00</b>			<b>-\$11,520 annual income shortfall</b>
Family living costs per person or acres				
Acres farmed	500			
Cost of family living expenses per acre	\$14.42	per acre per month		\$173 per acre per year
Household size	4		4.2 household size	
Cost of family living expenses per person	\$1,802.50	per month		\$21,630 per person per year
Hours worked per month on average	200			
Income needed to cover monthly expenses	\$36.05	per hour		-\$23.04 per acre per year

**Examine and compare existing family living records and expenses benchmarking** to Bureau of Labor Statistics or Farm Business Management Association benchmarks. Use the Ag Decision Maker Decision Tool, [Farm Family Living Benchmarking](http://www.extension.iastate.edu/agdm/wholefarm/xls/c3-66familylivingbenchmark.xlsx), [www.extension.iastate.edu/agdm/wholefarm/xls/c3-66familylivingbenchmark.xlsx](http://www.extension.iastate.edu/agdm/wholefarm/xls/c3-66familylivingbenchmark.xlsx), to compare to internal or external benchmark data.

**Adjust family living costs not under control.** [Farm & Family Connections: Taking Control of Farm-Family Living Expenses](http://www.extension.purdue.edu/extmedia/id/id-238.pdf), [www.extension.purdue.edu/extmedia/id/id-238.pdf](http://www.extension.purdue.edu/extmedia/id/id-238.pdf), from Purdue includes simple worksheets for estimating family living costs. You could compare the estimates you generate to your Owner Withdrawals, then use a personal finance worksheet or software package to record and monitor family living expenditures against the budgets you've set.

If family living expenses are not a problem, the farm business may have other concerns that need to be addressed using AgDM File C3-53, [Financial Troubleshooting](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c3-53.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c3-53.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c3-53.pdf). A thorough review of the efficiency, scale, and debt of the farm business may show that family living expenses were not the problem, but something else that points to the problem. The Iowa State University Extension and Outreach [Farm Financial Planning Program](http://www.extension.iastate.edu/farmanalysis), [www.extension.iastate.edu/farmanalysis](http://www.extension.iastate.edu/farmanalysis), is an additional resource that provides one-on-one financial counseling and a review of a farm's financial information with trained associates.

Looking ahead, the goal for farm families and farm managers should be to take time to discuss and consider:

1. current and future family living requirements,
2. a budget for the farm's share of those expenses, and
3. how to balance the current and future needs with farm income generating capacities.

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