AgriLIFE EXTENSION
Texas A&M System

Managing a Family Budget

Overview

- Budgeting for family income and expenses is often a lower priority for farm and ranch families than budgeting for the business.
- Without budgeting, however, family living expenses may exceed the available income and jeopardize the overall financial goals of the farm and family.
- Reasons producers do not devote more time to managing family finances.
    - The are not tax deductible
    - Family budgeting is difficult and time consuming
    - Compared to farm/ranch expenses, family living expenses are too small to worry about
    - Non-farm income pays for family expenses so it doesn't matter

Why Develop a Family Living Budget

- Budgeting for family expenditures is the foundation of a sound financial management plan
- When used in conjunction with records of actual spending, a family budget allows you to pinpoint unnecessary spending and areas where actual costs may be higher or lower than you previously thought
- Managing a family budget can also allow you to discover ways to put your money to better use, such as debt reduction, retirement savings, or college savings

Family Goals and Standard of Living

- Before developing your family budget, your must first determine your farm and family goals, and the standard of living your family desires.
- It is important that all members of the family be involved in this goal setting process so that the goals reflect the perceptions and ambitions of each member of the family.
- When establishing family goals, be as realistic as possible and consider all available income. Setting unattainable family goals will cause much unnecessary frustration and render the process less effective.
- The financial goals of your family can be divided into two categories – short-term and long-term. Short-term goals are those you hope to achieve in the coming year, while long-term goals are those you hope to achieve further into the future and that usually require substantial financial resources.
- The standard of living your family desires can be something you want now, or it can be a goal to strive for in the coming years.

Family Records

- The best way to develop an accurate family budget is to be very familiar with your current and past expenses.
- You may be doing one or a combination of the following: 1) drawing an amount from the farm checking account to pay family living expenses each month; and/or 2) using non-farm income to pay all or a portion of family living expenses.
- After determining this amount, list the expenses you incur each month that are known, or fixed.
- After establishing these amount, subtract the total of these known expenses from the total amount the family spent. The remainder will be those expenses that vary from month to month.
- Next, based on your memory, cashed checks, and other records you may have, allocate the remainder to the family living expense categories that vary from month to month.

Budgeting Income

- To begin, list all sources and estimated amounts of income you expect to have available for family expenses during the year.
- These include salaries, interest income, rental income, dividends, non-farm business income, etc.
- If some portion of farm income is to be used for family living (which is typical), estimate an amount you plan to set aside for family living.

Budgeting Expenses

- Since there are so many types of family living expenses, determine the categories that are meaningful to you and your family.
- For simplicity, they should be consistent with the categories you use in your record-keeping system.
- The next step is to budget an amount for each of your expense categories that reflects the goals, lifestyle and desired standard of living your have established.

Table 1. Example Monthly Average Family Living Budget

Income	Monthly	Annual
Salary (take home)	$3,000	$36,000
From farm account	$1,500	$18,000
Total income	$4,500	$54,000
Fixed Expenses		
Car payment	$427	$5,124
Child care	$475	$5,700
House payment	$1,043	$12,516
Retirement account	$400	$4,800
Insurance	$200	$2,400
Taxes	$250	$3,000
Total fixed expenses	$2,795	$33,540
Variable Expenses		
Auto fuel	$225	$2,700
Auto repair	$75	$900
Clothing	$70	$840
Contributions	$275	$3,300
Dining out	$75	$900
Groceries	$325	$3,900
Medical	$50	$600
Telephone	$105	$1,260
Utilities	$125	$1,500
Christmas (save)	$125	$1,500
Discretionary expenses	$255	$3,060
Total variable expenses	$1,705	$20,460
Total Expenses	$4,500	$54,000
Net Surplus/deficit	$0	$0

Budget Surplus or Deficit

- Steps in determining if there is a budget surplus:
  - Make sure you have not underestimated some of your expenses or overestimated income.
  - Apply the surplus to debt.
  - Reinvest the surplus in the farm.
  - Invest the surplus in a retirement fund or college savings fund.
  - Increase your standard of living and/or family goals.
- Steps in determining if there is a budget deficit:
  - Make sure you have not drastically overstated any of the expenses or underestimated income.
  - Re-evaluate your family's goals and desired standard of living. You may need to lower them.
  - Determine whether you can decrease expenses while still meeting your goals and standard of living. You will more than likely have to make some tough choices to accomplish this.
  - Determine whether you can generate more income. If you can, then determine if it will be enough to cover the deficit. If it is more than enough, you will need to determine how you want to spend the excess (surplus).