



readiness - response - recovery

■ Planning the long-term recovery of your farm

2. What are our family living needs, and where will the money come from?

A reduction or loss of income usually forces a family to alter its spending patterns. While this is painful at best, the pain can be minimized if family members communicate openly and work out and follow a spending plan. The alternative is to borrow money for current living expenses that must be repaid and place an added strain on future farm and family financial resources.

When dollars are scarce, their value, in effect, grows. No longer can the family afford to “waste” money on luxurious, frivolous, or unnecessary items. The “opportunity cost” in terms of necessary goods the family could have purchased is simply too high. It is important, then, that family members try to reach agreement as to which goods and services are high priority, which are of lesser importance, and which can be postponed or replaced by less expensive substitutes until the financial picture improves.

If your family does not have a spend-



ing plan already, now is the time to start. A spending plan is like a road map: It tells you where you are, where you have been, and how best to proceed toward achieving the best possible standard of living.

Creating a spending plan is not difficult. Major requirements include records of past income and spending, income projections, a knowledge of family spending goals and priorities, and the patience and discipline to get the plan started and see it through. Financial counselors point out that the most difficult and time-

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consuming step in any financial activity is the first one—getting started. Once the plan is under way, any required recordkeeping probably will take only about an hour a week. This may be less time than you spend watching television reruns—and the payoff will be much higher.

The first step in creating a spending plan is to calculate how much income your family will have over the coming year. Also important is when the income will be available, particularly for farm families. On a record sheet labeled “Income,” list all expected income for each month. Include income from all family members. When income is uncertain, it is a good idea to err on the conservative (or low) side in your estimates. You may wish to make a few different projections of expected income—low, medium, and high. To be safe, though, gear your spending plan to the “worst-case” estimate.

Along with earned income, list expected income from such sources as unemployment compensation insurance, if any family members are eligible. Also list income from any stocks, bonds, or real estate. Other possible sources include Aid to Families with Dependent Children, child support payments from an absent or divorced spouse, union benefits, severance pay, food stamps, general assistance, and Social Security.

Once all projected income for the year is listed in black and white, calculate your average monthly income (divide the total by 12). This average amount will provide the UPPER limit for your family’s average monthly expenses. Remem-

ber—it is better to plan on the basis of a LOW estimate. Do this even if you feel your income reduction is only temporary.

Now you need to take a serious look at expenses. Divide expenses into two groups—those that are fixed, at least in the short term, and those that are variable or flexible.

Fixed expenses include all those for which your family is obligated to pay a set amount. They may be monthly: for example, mortgage or rental payments, base utility charges, and payroll deductions for retirement, health, or life insurance. Fixed expenses also may come due annually or semi-annually—real estate taxes or an insurance premium due every six months. Other fixed expenses are existing installment debts, consumer or auto loans, and credit card payments.

List all fixed expenses for the year under the month they come due. For large, semi-annual expenses, such as insurance premiums, it may work best to total them for the year, then calculate an average monthly amount to list under monthly fixed expenses. This will help you set aside enough to cover the larger payments as they come due.

If your family has lost a major source of income, you may discover you won’t have enough income to cover your current fixed obligations or to pay necessary living expenses. If this is the case, some difficult decisions must be made.

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These may include selling some farm or personal assets to raise money, negotiating a different payment plan with creditors, restructuring debt to stretch out payments, or, lastly, taking advantage of the protection provided by bankruptcy laws. Under some circumstances it may be appropriate to borrow for family living needs, but only if it is very clear that the drop in family income is temporary and the loan can be repaid easily from future income.

Once fixed expenses are listed, flexible expenses are the next concern. These are trickier to estimate and control. If your family has no clear idea where the money is going, a little detective work and a lot of communication will pay off. Look back through checkbooks, receipts, or charge account records for amounts spent on food, clothing, long-distance telephone calls, entertainment, personal care items, and household supplies. Begin cutting back and keeping track of outgoing dollars. Give each family member a small spiral notebook for daily expenses, or find a shoe box or spindle for keeping track of labeled receipts.

When your family begins to see how money was and is being spent, it is time for a family conference. Spread out the records of anticipated monthly income and scaled-down expenses for all family members to see and evaluate. Subtract expenses from income: Is there anything left after all monthly fixed and flexible expenses are subtracted? Do you have savings that can be used to meet expenses in an emergency? Are some ex-

penses out of line with family priorities or expected income? Where can you make needed cuts so that they cause the least sacrifice in family welfare?

If expenses are categorized, it is easier to see the general pattern of spending. This reveals the percentage of income spent on food, housing, clothing, medical care, insurance, and other items. There can be no hard-and-fast rules for family spending because individual needs, tastes, and economic circumstances are so important. Examin-

ing spending by category does highlight potential differences between a family's stated goals and priorities and its actual spending patterns and income. If these differences are significant, the family needs to reach agreement on a plan by changing the way income is allocated.

If a family is operating "in the red" month after month, several things must happen: Expenses must be reduced, income must rise, or both. Spending records and a spending plan provide a road map

for how this can be done.

Contact your county Cooperative Extension Service office for more information or sources of assistance with family financial management.

This material was originally prepared by Carol S. Kramer, Extension Specialist at Kansas State University. It is reproduced here with some fairly minor revisions. An earlier version appeared as "When Your Income Drops. 4: Set Priorities for Spending," FCS-323-4, North Carolina Cooperative Extension Service.

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