

The Dreaded Household Cash Flow Discussion and How It Works



How much does it cost you to live each month? Answering that question should be easy for every adult, but most people have almost no idea how much they are actually spending.

When it comes to creating a budget, the importance of knowing your “monthly nut” is inarguable, yet discovering this number always seems to alarm people. The prospect of tracking and figuring out monthly expenses leads to an inevitable look of dread when I assign this task to new clients. I equate it to getting on the scale. People know it is important, but they don’t want to have to face what they spend per month. The task is a little less daunting with the help of our Monthly Nut worksheet.

From my perspective, and similar to the scale, your monthly nut is simply a data point. A family might spend a lot per month, but they might be saving a lot, too. The key thing is to not to have any judgements around the number when approaching this project.

How to go about figuring your number out

Your monthly nut includes all the money you spend, divided into three general categories.

Monthly fixed expenses + average monthly variable expenses + monthly obligations = Your Monthly Nut

Remember to account for little expenses as well as the larger, more obvious ones. These are just some of the costs in each category:

Fixed expenses

- Groceries, clothing and personal care
- Rent, utilities, lawn care, renter’s or homeowner’s insurance
- Property tax
- Health, life and auto insurance
- Day care
- Gasoline, parking and other basic transportation costs
- Restaurants, entertainment, pet food

- All the other expenses that go into keeping your family life operating on a daily basis

Variable expenses

- Vacation and travel
- Furniture, appliances
- Books, subscriptions, sports and hobbies
- Larger situational clothing costs
- Home and car repair, home improvements
- Gifts and philanthropy
- Medical expenses, including vet care
- Education and children's activities

Obligations

- Mortgage
- Car payment
- Credit cards
- Student loans
- Alimony
- Child support
- Federal and state taxes

Even though some obligations seem to fall into the category of fixed operating expenses, it's useful to separate them out because these expenses can eventually disappear after the debt is paid off.

When computing your monthly nut, pulling previous credit card statements can be a huge help, as many people just put everything there and then pay it off. You should also pull bank statements, so that you can get a truly accurate number. Since the variable expenses are, well, variable, get an annual number here and just divide by twelve to determine the average monthly cost.

Finding your monthly nut requires some digging, and it's tempting to procrastinate or avoid the project entirely. Don't do that! You and your financial advisor need to know how much your current lifestyle really costs so that together, you can create an effective plan to maintain it while reaching all your other financial goals. E-mail me at moore@moorewealthmgmt.com if you would like our free Monthly Nut worksheet, so that you and your family can begin computing yours.