



ENVELOPE SYSTEM FOR BUDGETING MONEY

Past generations often used cash envelopes to help control monthly spending, but today's card-swiping culture caused this system to fall by the wayside. The good news is that it still works. No matter what your age, the envelope system can help you budget your money—if you feel comfortable carrying cash—by following these five easy steps.

Five-step envelope system

The envelope system is simple and straightforward. Each month, you put a specific amount of money into envelopes representing your major budget categories. Once the money is gone, it's gone.

Step 1: Determine which categories to include in your budget

Not all of your household expenses will fit into the envelope system. Utilities, mortgage or rent, and other recurring monthly bills are typically paid online or via bank draft. Savings can be automated to direct money to your savings account through payroll deduction or a transfer from checking to savings. The spending categories we're talking about are discretionary expenses. For example:

- Food: includes groceries, dining out, vending.
- Household products.
- Gifts.
- Entertainment.
- Clothing.
- Gas (although the pay-at-the-pump feature may be too convenient to give up if you have to carry kids into the gas station to pay cash for your gas).

Step 2: Use past spending to establish an initial budget amount

You can do this in one of two ways:

- Track your spending for two weeks, writing down everything you buy. Don't just save your receipts. Make a list so you know where your money is going. Include purchases made without a receipt, such as a trip to the vending machine.
- If you only use debit or credit cards, you can look at your transaction history and group your spending into the categories you determined in step 1.

Step 3: Create a budget envelope for each spending category

Write the category name and the monthly amount budgeted on the outside of each of the envelopes and place the appropriate amount of cash inside.

You may not have enough money in your checking account to withdraw cash to fill all of the envelopes with your first paycheck each month. That's fine. Just break down the monthly budget amount by the number of times you are paid in a month. For example, if your grocery budget is \$400 a month and you're paid biweekly, put \$200 in your food envelope every two weeks. In other words, plan your budget based on your pay periods.

Step 4: When each budgeting envelope is empty, stop spending

The only way this budgeting system will work is if you make a pact that you won't:

- Move money between envelopes.
- Spend additional money in a category when an envelope runs dry.

If you have extra money in an envelope, don't spend it. Leave it in the envelope. You may need that extra money another month when your spending is greater, such as during your child's birthday month or around the holidays.

Step 5: Revise and repeat

No budget is going to be perfect from month to month—and envelope budgeting systems are no exception. To help fine-tune your system:

- Look back at your spending at the end of each month and determine where you could have allocated a little more and where you assigned too much of your paycheck.
- After reviewing your monthly spending, cut back in areas you feel you may be spending too much.
- Be persistent. Don't give up after a month or two if it's not clicking. You'll get the hang of it and will soon experience the benefits of having control over—and confidence in—your spending.

Sources: Ramsey, Dave (2009, Sept. 5). Dave Ramsey's Envelope System. Retrieved from Daveramsey.com/article/dave-ramseys-envelope-system/lifeandmoney_budgeting

FrugalDad (2008, Jan. 31). Envelope Budgeting System. Retrieved from Frugaldad.com/2008/01/31/how-to-implement-an-envelope-budgeting-system/



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