

How to Set Up an Envelope Budget System

Income must cover expenses and debt payments to successfully set up an envelope budget system. Make a written list of all the things you spend money on. Divide your list into three categories:

Monthly expenses are payments you make each month. Here are some examples:

Rent/Mortgage	Telephone	Debt Payments
Electricity	Vehicle Payments	Cable
Heat	Daycare	Internet
Water	Student Loan Payment	Memberships

Periodic expenses and savings are accounted for by setting aside the designated monthly amount needed to prepare for expenses that may come due each month. Here are some examples:

Car Maintenance	Medical Needs	Savings
Insurance	Tabs/Vehicle Registration	Taxes
Vacation	Gifts/Holiday Spending	Beauty Salon/Barber

Flexible expenses are costs for items that may change more often. Here are some examples:

Groceries	Entertainment	Food at Work
Eating Out	Tobacco/Alcohol	Babysitter
Gasoline	Coffee	Clothing

Beginners may want to set up a bi-weekly system or envelopes for each pay period to make it easier to manage and follow.

Creating the Envelopes

Add together your **monthly expenses**. This money can be direct deposited into your checking account.

Add together your **periodic expenses**. This money can be direct deposited into your savings account.

Flexible spending is the category where people tend to overspend. Look at your budget and make sure the amounts are realistic.

Write the name and monthly amount budgeted for each of your flexible spending categories (groceries, dining out, etc.) on each envelope.

When you go to spend your flexible money take only the amount of cash to cover what is needed from your envelope.

Tip: do not take the entire amount in the envelope with you, to avoid the temptation of spending more than planned.

The most important thing about the envelope system is once the money is gone from an envelope; you are done spending in that category! No using money from other categories, no using credit cards, and no taking funds from next month's budget. You may feel uncomfortable and stretched if you run out of funds early but remember it is only temporary. To make this system a success, you will want to be very aware of where your money needs to go.

At the end of the month, leave any leftover funds in the envelope. If you consistently have money leftover, consider adjusting your budgeted amount.