

# Envelope System

*\*Used with permission from Julia at [thefrugalfind.com](http://thefrugalfind.com)*

*Julia's family is a cash only family using the envelope system. It is a great way to budget. You know exactly how much is being spent and you know if you're consistently short or over in any given area.*

My #1 tip ever is to use cash only and always. I speak from experience having gotten into thousands of dollars of debt; cash is absolutely the only way to go. I know at first it might sound crazy, you might think if I have cash I will just blow it! However, I think quickly you will see just the opposite happen. You will begin to ask yourself, do we really need this? When you are on a fixed budget, you will see that you actually DO have the time to use coupons & hit a couple of different stores in search of a deal or sale. Amazing how this happens!

**Step 1** - Define your categories, what can you possibly pay for cash with? One key here is to only include categories for things that you can't pay online or through an invoice or bill. Anything that doesn't come as a bill in the mail is probably a good candidate for cash.

Here is a list of our envelopes. Notice I do not have an envelope for gas, it's not that we don't have it budgeted, but it's because I don't want to leave the kids in the car while I go into the gas station to pay. We use our debit card for this expense, note DEBIT, not CREDIT. You'll need to figure out what best fits your family's needs.

## **ENVELOPES:**

- |               |                                  |                     |
|---------------|----------------------------------|---------------------|
| 1. Groceries  | 4. Gifts (Birthdays, X-mas, etc) | 8. Car Maintenance  |
| 2. Toiletries | 5. Date Night                    | 9. Kid's Date       |
| 3. Clothes    | 6. Eating Out                    | 10. Kid's Allowance |
|               | 7. Spending Money                | 11. Trip Money      |

**Step 2** - Determine how much you spend in several categories per month, i.e. groceries, toiletries, clothing, etc. not while on a budget, but what you have spent on a regular basis. This may take some time, and you may have no idea because you haven't kept any track at all, so you may have to start this process now for the next 30 days. Now hold on to your seat, you're going to be shocked.

**Step 3** - Figure out how much you THINK you will NEED in each category, but the key here is to be flexible, it will change. It will change more than once, twice, and possibly even three times. Life is always changing and so will your budget. Another baby? Up goes the toiletry budget! Or maybe you just potty trained your 2 year old, well that saves \$30 a month!

**Step 4** - Get the cash! We go every week on payday to withdraw our cash, it is easiest if you can keep it to an even \$20 amount so you can go to the ATM machine at your bank, saves you a trip inside the bank. This has got to be the best part, it's like playing a game of monopoly. Divide your cash, you may need to go into the bank every once in a while to get \$5's, \$10's, etc depending on your envelope amounts.

**Step 5** - Start saving money! When the envelope is empty, that's it, your money is gone and you CANNOT purchase anything in that category until the next envelope payday. But remember, the first couple of months you need to be flexible. Also, please remember to make your budget realistic, if you undercut yourself too much, you will give up. So that is why my family has an eating out budget, because the reality is, while we shouldn't eat out, we do.

For more information on the envelope system you can also visit [www.daveramsey.com](http://www.daveramsey.com)