The Envelope System Explained

Taken from Dave Ramsey’s blog @ daveramsey.com

The envelope system is certainly nothing new—it has been around for decades.

And yet many people still don’t know exactly how it works. Do you need to save up money to get started? Does every bill get paid with the envelope system? Can you work an envelope system online? And on and on.

**How It Works**

**You don’t have to save up any money to start using the**[**envelope system**](http://www.daveramsey.com/store/cEnv.html?snid=store.envelopes&ictid=CPRE4240&ictid=Y7NC4238&ictid=D88YF236)**.** It goes like this: Let’s say you have budgeted $500 a month for groceries. When you receive your first paycheck of the month, write yourself a check for $250, cash it, and put the cash in an envelope. On that envelope, write "Groceries."

You could also "allot" that amount of money using an online budget tool, like EveryDollar. Created by Dave Ramsey’s team, EveryDollar is a new, convenient way to know where you’re at with your money on the go. With this type of digital budget, you can update the cash you have in your online envelopes by personalizing your transactions.

No money—and we mean no money—comes out of the Groceries envelope except to pay for food at the store. If you go food shopping and leave the envelope at home by mistake, turn the car around and go back to the house to get it. Make sure to take enough money to cover your groceries for that trip. If you take $150 and you tally up a bill for $160, take some things out of the cart. Put any change back in the envelope. If you’re budgeting with EveryDollar, then make sure you sync your bank account daily.

When you get paid again, write another $250 check. That’s your $500 for the month for food. If you want to go to the store but don’t have enough money, then raid the fridge for leftovers.

**Use the envelope system for items that tend to bust your budget.** Common examples include groceries, restaurants, entertainment, gasoline and clothing. **When the money runs out of each envelope, don’t spend any more until the new month starts and new money goes in there.**

### Reward Yourself

If you have money left over in an envelope at the end of the month, congratulations! You came in under budget for that item that month. So for that, it’s all right to celebrate, within reason. Reward yourself if you’d like by going out to dinner or rolling the money over to the next month so you have an extra-big food budget.

Getting that reward is important because it keeps your spirits up. It’s tough to live on a beans-and-rice lifestyle. But you’re making it work! **Great job!**

### Don’t Cheat on Your Envelopes

Be careful not to borrow from other envelopes. When it comes to the envelope system, it can be very tempting to borrow cash from one to fund some other activity. For example, if you use up all your "Eating out" money, don’t be surprised if some inner voice tells you to reach behind that envelope for the one that’s marked "Clothing."

**You must remember that the very purpose of the envelope system is to curb your spending and teach you discipline.** When you run out of grocery money, you eat leftovers instead of going food shopping. If you see your gas money is slipping away faster than the remaining days of the month, then limit your trips or even carpool.

If you have a crisis come up in the middle of the month or something happens and you absolutely have no other choice but to shift envelope funds around, then call an emergency budget committee meeting with your spouse. Talk to each other and figure out the best course of action, adjust the budget, and be in agreement on it. Both of you must be involved; it’s a committee decision.

Remember, envelopes are powerful weapons in the fight to corral your spending, but they are not the most powerful. What is? Simple: It’s you. Whether you use the traditional envelope system or an online tool like EveryDollar, you’re now equipped to go out and manage your money even better. Put it to work for you and take back control!