Budgeting Basics

INTRODUCTION

QUESTION: What is a budget?

(A = a systematic, intentional means of tracking income and expenses)

QUESTION: What is the primary usefulness of using a personal budget?

QUESTION: What are some of the goals in life with which budgeting can assist you?

QUESTION: What often happens to a person’s income when they do not use intentional budgeting?

QUESTION: What are some goals for your future that will require intentional budgeting and spending discipline?

List 3 goals below:

1. Goal____________ Cost of goal: _________ Time frame ________
2. Goal____________ Cost of goal: _________ Time frame ________
3. Goal____________ Cost of goal: _________ Time frame ________

Envelope Method

The envelope budgeting method is a simple, systematic way of saving money and paying bills. The method helps you set aside what you need for bills while maintaining a personal budget. It is a popular budgeting system and can be implemented with personal finance software as well.

How Envelope Budgeting Works

The envelope budgeting system divides your income into different spending categories—bills, groceries, gas, and so on. Once you've decided how much you should spend on each category, you'll take that amount in cash and place it into an envelope. Then, only spend what's available in that envelope for that category's bills or purchases. The aim is to prevent you from overspending by limiting what is available to spend.

Even if you no longer use cash to pay bills, the principle still works and can be applied using software or other financial technology.

The strength of envelope budgeting is that it forces you to stay in touch with spending habits because once the envelope is empty, you can't spend from that category until the next paycheck replenishes the envelope.

Step 1: Establish Categories and Limits

To use envelope budgeting, first establish spending categories for your budget, and then set spending limits for the categories. The total amount for the spending categories must not exceed your monthly income.
To understand what categories might be useful for your budget, consider where your money goes. Try to list your common expenditures so you can group them effectively. For example, your categories may include:
Note: These are categories that will exist when you graduate the HOH.

- Groceries
- Gas & insurance
- Health and grooming
- Clothing
- Dining out / entertainment
- Household items
- Pet care & children's items
- Rent or Mortgage
- Utilities (electric, gas, trash service etc)
- Smokes / chew etc (its good to know the cost of our habits)

Tailor your categories to your specific situation. Make as many categories as you need, but not so many as to be overwhelming. To discover what a reasonable monthly limit might be for each category, check your recent spending habits to get an idea of your usual costs. You can use that number or, if you're trying to cut back, use a slightly smaller figure.

Budgeting Worksheet

Category	Amount	Monthly / Weekly?
Savings Envelope		Deposit monthly
Total **Monthly** Budgeted:	______________.__	

Monthly Income: ________

Monthly Budgeted: ______

Savings / Deficit: _______

Saving Goals (from page 1)

1. ________
2. ________
3. ________

Step 2: Label Each Envelope

Using one envelope per spending category, write the name of each category and the monthly budgeted amount on the envelopes.

If you are paid weekly or bimonthly, divide the total monthly amount for each category by the number of pay periods you have in each month, and record that figure on the envelope. That will help you put the right amount from each paycheck into the envelope.

Step 3: Separate Funds

For this example, suppose you receive a paycheck for $500. Cash your paycheck, and put the allocated amount for each budgeted category into the respective envelope. A simple example might be divided like so:

- $100 in the grocery budget envelope
- $200 in the rent budget envelope
- $70 in the gas and auto maintenance budget envelope
- $30 in the utility budget envelope
- $70 in the personal care and clothing envelope
- $30 in the savings budget envelope

Each time you are paid, add that check's earnings to each cash envelope according to your established budget.

Step 4: Spend from the Envelopes

When you go shopping or pay a bill, take the money for the payment from the appropriate envelope. If you are paying a bill in person, carry the envelope with you. Likewise, if you are going grocery shopping, bring your grocery envelope along with you.

If you spend all the money in one of your envelopes, do not pull cash from another envelope to continue spending. If you do, you'll be short for that category.

At the end of the month, if you have money left over in any of your envelopes, you can either keep it in that envelope for the next month's spending or remove it and add it to savings or your emergency fund. Budgeting that way can help you reach a savings goal, which in turn can help you keep your budget on track.

Envelope Budgeting With Financial Software

With direct deposit for paychecks, electronic funds transfer, debit cards, credit cards, and checks, cash envelope budgeting may seem obsolete. However, with personal finance or budgeting software that is built around envelope budgeting principles, you can use convenient financial transaction methods while still maintaining the discipline of envelope budgeting.

Envelope budgeting apps such as You Need a Budget uses virtual "envelopes" to represent budget categories and to show spending activity and balances for each category. When income is recorded, the software distributes a portion to each "envelope." When a purchase is made, you tell the software which spending categories to use, and the software deducts the money from the "envelopes."

Bills that are paid directly cause the software to remove the payment amount from the appropriate envelope. If you use a credit card as a payment method, the software can set aside that amount in a credit card payment "envelope" or category to be used when you pay the credit card bill.

How does the envelope system help with budgeting?

The traditional cash envelope budgeting system makes it easy to stick with a budget, because you can't spend anymore once a specific envelope is empty for the month. If you stick to it, that puts a hard limit on each spending category.

Q: Are there downsides to a cash envelope budget?

The biggest downside of the cash envelope system is that it's out of sync with today's world. People use cash less and less and carrying cash envelopes can be inconvenient or even unsafe. If you want the benefits and structure of an envelope system but don't want to carry cash, consider using an app such as YNAB or Mvelopes that allows you to imitate the system digitally.

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Budgeting Without Envelopes

Budgeting without the use of envelopes is like the envelope system. The budget is created in the same way outlined above. The difference is that with non-envelope systems, you will track your spending categories on paper or electronically, rather than using envelopes.

Here are the basics of budgeting and spending without envelopes:

1. Make a budget using the worksheet in this packet
2. Assign spending limits to each category
3. Design a system to track your spending for each category
    a. Option One = keep and track receipts
    b. Option Two = keep and use a electronic spreadsheet
    c. Option Three = use your bank “Pay Bills” and assign a category to each expenditure.
    d. Use a check book and assign categories to each expenditure with a note in the memo section of each check.
    e. Use a combination of these methods

Note: It takes a great deal of discipline to record and track non-envelope spending. If there is no tracking, there will (likely) be no discipline, no savings, and no long-term goals met.