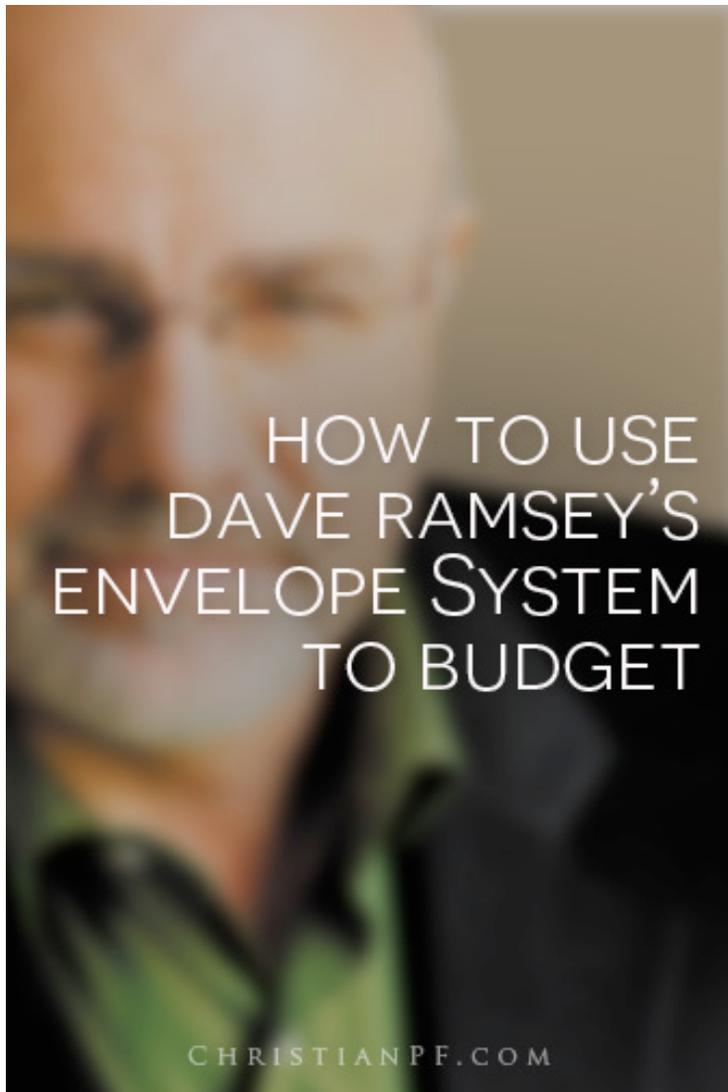


How To Use Dave Ramsey's Envelope System To Budget

I have noticed that since I've started using the envelope system, I'm spending about \$60 less per two-week period than when I used a debit card. I think it's because when I lay three \$20s down for groceries, it hurts! When I paid with debit, it didn't really register with me.

—My Total Money Makeover member mgtyjoe



What is the “Envelope System?” Glad you asked. It’s a simple and effective way to budget by using envelopes to organize your cash. The envelope system has no doubt been popularized by financial expert, Dave Ramsey, but he will be the first to let you know he didn’t invent it. Dave says, *“I found out that Grandma’s way to handle money still works. People used to always use cash envelopes to control their monthly spending, but very few do in today’s card swiping culture.”*

I first learned about the envelope system in 2005 from a couple from my church who were successful business owners. I later completed Financial Peace University with my wife where we learned even more about the power of paying cash versus using a card.

Here is how to get started:

1. Review Current Expenses

If you already track your expenses, this part will be easy. If not, you can pull up your online banking and do your best to categorize your expenses over the last three months. Once you've done that you will have a better idea how much money to allocate for each category going forward. Go to www.dothanvineyard.com to print a budget form.

2. Find Out How Much Cash To Withdraw

Before you go to the bank and cash your paycheck you need to know how much cash to withdraw. When you first start using the envelope system your goal is to pay cash wherever possible and practical. It's more practical to pay certain bills online every month (i.e. cell phone, rent, car insurance and life insurance). So leave enough funds in your bank to cover for these.

After you subtract the amount you need in your bank from your net pay then you know how much cash to take out. For example, if your net pay was \$3,000, rent was \$1,000, cell phone \$80, car insurance \$100 and life insurance \$35; then you would withdraw \$1,785 cash.

3. Create Envelopes

Now the fun part. Take a marker and label your envelopes. Here is a list of the most common categories:

- Tithe (10% of gross income)
- Offering (you decide)
- Gifts (i.e. Birthday, Christmas, Anniversary)
- Food
- Gas
- Vehicle Maintenance
- Clothing
- Coffee
- Personal Care (toiletries, makeup, etc.)
- Home Supplies
- Entertainment
- Books/Music/DVDs
- Blow Money

4. Fill The Envelopes

Now refer back to your last three months of expenses. On average, how much did you spend on food, gas, coffee and so on? When you fill your envelopes, be realistic. If you're spending

\$500 on food you may be able to get by on \$300 if you don't eat out as much. But do you think you can really go from \$500 to \$100/month?

5. When An Envelope Is Empty...

You guessed it – it means you are done spending in that category until payday. If you want to go to the movies but realize your entertainment envelope is empty it doesn't mean you steal from your food envelope. It means you get to stay home and read a book or play some board games with friends. I know, you have it rough now.

Benefits Of Using The Envelope System

So why go through the trouble of stuffing a bunch of envelopes with cash? I'm glad you asked. And no the answer isn't Because Dave Ramsey says to. There are several benefits to using the envelope system:

- Psychologists have found that people spend less when they spend cash rather than use a card.
- You will have cash leftover. It's common to forget that you put cash in an envelope only to realize a few months later, *Hey, I have \$80 in clothing. Time to go shopping!*
- It works. Your financial situation will improve if you stick to this for at least six months. If it doesn't, what have you really lost?

- No more waiting for the waitress to return your card at restaurants. Just pay and leave.
- You get better deals. Many businesses give discounts when you pay cash. Sometimes they advertise it and other times you just need to ask, “Hey, do you guys give a discount if I pay with cash?”