

THE ENVELOPE SYSTEM OF BUDGETING

The Envelope System is a cash-based budgeting method that helps manage discretionary spending by allocating specific amounts of money to different categories using physical or digital envelopes. Once the money in an envelope is spent, no more spending is allowed in that category until the next budgeting period

The Method



Identify Categories:

Determine your spending categories (e.g., groceries, entertainment, dining out).

Allocate Funds: Assign a specific amount of money to each category based on your budget.

Use Envelopes: Place the allocated cash into labeled envelopes for each category. Spend only the cash from the corresponding envelope for each category.

Review and Adjust: At the end of the period, review your spending and adjust the amounts as needed for the next period.

Best Practices



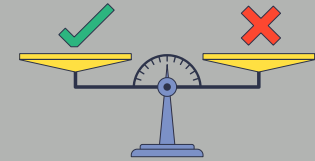
Start Small: Begin with a few key categories to get comfortable with the system before expanding

Use Digital Tools: Consider using digital envelope systems or budgeting apps to manage electronic transactions.

Stay Flexible: Be prepared to reallocate funds between envelopes if necessary, but do so sparingly to maintain discipline.

Combine Methods: Use the Envelope System alongside other budgeting methods (e.g., Zero-Based Budgeting) for a more comprehensive approach.

Pros and Cons



Pros:

- Easy to understand and implement without the need for complex tools
- Helps curb overspending by enforcing strict limits on each category
- Provides a visual and tangible way to track spending, making it easier to see where your money goes

Cons:

- Risk of losing cash if envelopes are lost or stolen
- Harder to track and manage electronic transactions within the envelope system
- May be too rigid for those with fluctuating expenses or irregular income
- May lead to short-term thinking and neglecting long-term investments



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