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THE ENVELOPE METHOD FOR BUDGETING EXPENSES

BY ROBIN HENAGER

Fall back-to-school shopping. This phrase brings memories from my childhood when Mom would take me to the big city to go shopping for back-to-school clothes. When I had my own children, I often wondered how Mom was able to afford to buy a bunch of clothes all at one time.

Indeed, clothes can be expensive, and a shopping trip could put a pinch on the budget for many families. Then I discovered the envelope method for budgeting. It was life-changing. This works especially well for variable expenses. For example, your rent or mortgage payment is a fixed expense and often, nowadays, it is electronically paid from your checking account each month. No need for an envelope for this expense.

However, think about eating at restaurants, buying lattes, buying clothes, or going to the movies. Put a specific amount of money in an envelope — let's say, \$80 a month for buying lattes. When you spend it, it is gone. No more lattes for the rest of the month. Our solution for clothes was to put \$100 a month in the envelope for six months. At the end of the six months, we could go on a fun shopping trip with no guilt. The money was there and would not put a pinch on the budget. It was fun!

Kids need clothes and shoes as they grow. There is no getting around it. Leaving clothing expenses out of a budget is not realistic. Even we adults need new clothes from time to time. So, how much should someone budget for this line item? A sound budget will have about 30% of net income spent on housing, about 10 percent to 12 percent on food at the grocery store, and about 10 percent to 12 percent on transportation expenses (car payment, maintenance, insurance, and gasoline). The rest of the budget items, such as eating out, clothing, and miscellaneous expenses (don't forget haircuts), will hover around 5 percent to 7 percent of your net income depending on your needs.

The envelope system can be applied to your bank account if you prefer. Simply open a savings account labeled "clothes," "restaurant," or some other expense you are trying to plan and control.



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