



## The “Envelope System” in a Cashless Society

By Gary Foreman

My family has been trying to work with a budget for the past several months, but the "envelope" system is just not practical with our primarily cashless lifestyle. How can I track our cashless expenditures for gas, groceries, personal items, etc. and still know how much is left in each category as the month goes on?

*Lisa*

Lisa's right. Some of the old budget tools don't work so well today. Fewer of our purchases are made with cash. So merely controlling cash isn't an effective budget tool.

Before we look specifically at Lisa's question, let's spend a moment to talk about how budgets can be used. A budget is a wonderful way of collecting information about your finances and presenting it in a way that's useful to you. A simple monthly budget can tell you at a glance where your money is going. When compared to previous months, it can tell you what's changing in your spending patterns. That's important. Just knowing that your electric bill is higher could help you identify an air conditioner that needs servicing before it breaks down completely. It's also a good way to find potential savings. If you need to reduce spending by \$250 a month, don't look in a category where you only spend \$300.

Lisa is attempting to use her budget for its second purpose. A budget can provide discipline and control over-spending.

There are variations, but in the basic envelope system, Lisa would cash her paycheck. She would have a number of envelopes for the different categories of spending, such as rent, food, transportation and so on. Cash from her paycheck would be divided into the various envelopes based on how much she felt she needed in that category.

For instance, if she got paid weekly and expected to spend \$40 per week on groceries, \$40 would go into the "grocery" envelope. When she went to the store, she'd take the "grocery" envelope with her and pay for her purchases with the money in the envelope. If she got to the checkout and had more than \$40 worth of groceries in her cart, she could return some groceries or take some cash from another envelope. Of course, that meant that she'd have less to spend on that category until the next payday.

The envelope system worked well when we used cash for all of our purchases. You immediately knew if you could afford a purchase. Moving money from one envelope to another was a warning sign that you could be getting into trouble.

Unfortunately, very few of us use much cash anymore. We're much more likely to pull out a credit/debit card or write a check. And an envelope system doesn't handle credit cards very well.

One way to modify the envelope system is to add an additional envelope for your checking account. When you charge something, move cash to the "checking account" envelope. If you charge \$20 worth of groceries, move \$20 from the "grocery" to "checking account" envelope. Then when the credit card bill comes, you'll have the money available to pay the bill.

Or Lisa could use a "pretend envelope" system. She would set it up just as if she were going to use an envelope system. But she wouldn't actually put cash into the envelopes. Instead, on the front of the envelope, she'll list how much money is assigned to it. As she writes checks or makes charges, she'd subtract that money from the balance listed on the front of the envelope. When the running balance on the front of the envelope got to zero, she'd have to quit spending in that category or "move" money from another envelope.

Another way would be to use one or more sheets to keep a running balance for each category. She could have one sheet represent each envelope. Or she could have one sheet per month that contained the balances for all of the envelopes. The sheets, or perhaps a small spiral notebook, could be kept in her pocket or purse.

The danger in any virtual envelope plan is that you'll forget to make the entry and your balance will appear bigger than it is. One way to avoid that is to put any receipt into your pocket or purse. When you get home you can deduct the expense from the proper envelope and place the receipt inside.

There are also products that Lisa can buy that will help. One is available at [budgetmap.com](http://budgetmap.com). They offer a specialized check register that allows you to keep track of different budget categories. Another is [mvelopes.com](http://mvelopes.com). They feature an online approach.

Lisa is wise to recognize the limitations of any tool that she uses. But, she's also smart to look for a system to help her keep her finances in line.

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Gary Foreman is a former financial planner who currently edits [The Dollar Stretcher website](#) and [newsletters](#). If you'd like to save time or money, visit today!