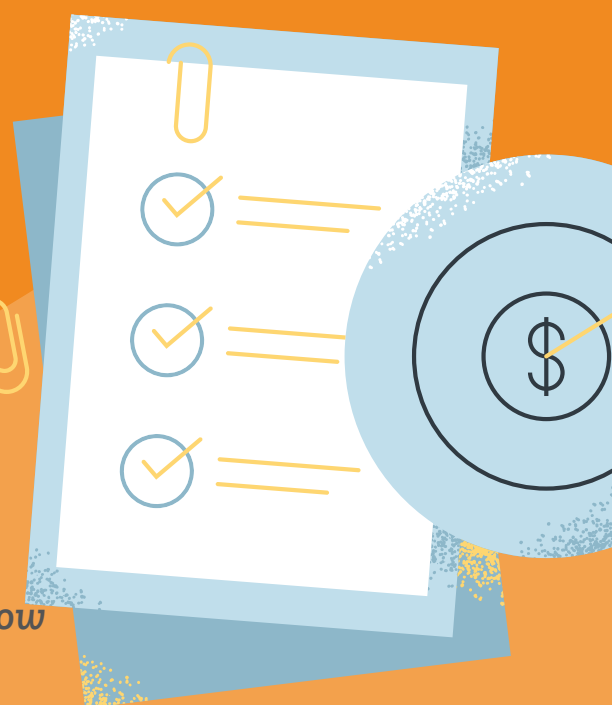


# 3 Budgeting Methods

A budget is a summary of your income and expenses that helps you see how your income compares with your spending.

To ensure that your spending doesn't outpace your income, creating a budget helps you make sure you are working toward your financial goals.

Let's look at three popular methods for categorizing your spending and determining how much you can spend across those categories.



## The Envelope Method

Start by looking at your monthly expenses to decide how you need to allocate your income across your spending categories.

Then label the envelopes with your spending categories.

When you get paid, cash your check and place the designated amount of cash in each envelope.

As the month progresses, you pull cash from the relevant envelope to cover your expenses. When the envelope is empty, you stop spending on that category.



## Pay Yourself First

This method focuses on savings and debt repayment. You'll determine a percentage of your budget that you want to set aside for savings and debt payments. Then you'll decide how to distribute the rest of your income across your essential bills and discretionary spending.

## The 50/30/20 Budget

With this method, you'll break your expenses into three categories: necessities, discretionary spending, and savings and debt payments.

Fifty percent is allocated to rent/mortgage payments, car payments, fuel, food, and insurance.

Thirty percent goes to discretionary expenses like eating out, entertainment, and clothing.

Twenty percent is set aside for savings and debt payments.

