Most people budget by guessing what they will spend and then checking later to see how close they came. A zero-based budget works the other way around. You start with the money you expect to receive, and you give each dollar a job before the month begins. This guide covers the whole method: what a zero-based budget is, how a month flows, how to decide who does what, how to set each month up, and how to adjust as you go.

THREAD ONE

Decide where every dollar goes.

Your income is one full pitcher. Your spending categories are jars on the counter. You pour in order of importance, and each jar fills before the next one gets anything. The last jar receives whatever is left, so you prioritize your financial goals.



INCOME

All the money you expect to receive this month.

1 Keep the Lights On

Housing, food, transportation, utilities, insurance.

2 Debt Payoff

The minimum on every debt, only the minimums for now.

3 Other Needs

Childcare, medical costs, anything else you cannot skip.

4 Savings

Building an emergency fund. Bills that come a few times a year. Other expenses you know are coming you just don't know when.

5 Wants

Eating out, DoorDash, Uber, a weekend movie, a purebred dog, an overnight in Cabo.

Generosity is not one of the jars. It stays in the budget even while you are attacking debt the hardest.

Income – Expenses = $0

Your budget is ready when this is true. Every dollar has an assignment.

THREAD TWO

The work starts before the month does.

Here's the regular rhythm you will establish and develop to make budgeting successful. The budget for the next month is created before the next month begins. Then you spend and track throughout the month and end by building the next one.

THE WEEK BEFORE

LAST WEEK OF THE MONTH BEFORE

Build the budget.

Whoever is responsible starts with the income expected and works down the list of jars.

ONE OR TWO DAYS BEFORE IT STARTS

Hold the budget meeting and agree on it.

Nothing is decided until you meet, make adjustments, and agree together.

THE MONTH STARTS

WEEK 1

TWICE A WEEK, EVERY WEEK

Categorize your transactions.

Every gold dot on the line is one of your two tracking days. Pick the same two days each week and put them on the calendar.

WEEK 2

ANY DAY OF THE MONTH

Move money between categories when something changes.

You will forget something, a bill will come in higher, or income will be different than you expect. Take the money from another category so the budget stays balanced.

WEEK 3

WEEK 4

IN WEEK 4

Build next month's budget.

Start again at income and work down the list.

ONE OR TWO DAYS BEFORE THE MONTH ENDS

Meet and go over it together.

The same meeting you held last month. Review the current month and agree on the next.

THE NEXT MONTH STARTS

PRO TIP

If your goal is to make tracking your spending as soul-crushing as humanly possible, be sure to ignore categorizing transactions for at least three months. Let hundreds of transactions pile up. Then, on a random Tuesday evening after the kids go to bed, try to categorize them in a single caffeine-fueled session. This will ensure you never budget again.

THREAD THREE

Agree on who does what before jumping in.

A budget fails most often when expectations aren't clear, follow-through doesn't happen, or agreements aren't honored. Settle these questions and commit to the plan. This is huge if you want to set yourself up for success.

WHO DOES WHAT

ONE OF YOU BUILDS IT

One person creates next month's budget and coordinates the date you will meet to go over it.

THE OTHER ADDS TO IT

The other person communicates everything they know needs to be in it, and can change any line item at the monthly meeting.

BOTH OF YOU RUN IT

You both categorize transactions, you both talk through adjustments, and you both have an equal say.

One or both of you can pay the bills. Both is better, because the household keeps moving when one of you is traveling, sick, or busy.

HOW YOU TREAT EACH OTHER

- **Listen to each other.** The monthly meeting is for understanding what the other person wants and where that comes from.
- **Keep full transparency.** You both see every account and every transaction, every month.
- **Give each other an equal say.** When you meet, honor each other's desire, defer to one another whenever possible. Avoid running ahead.

BUDGET PRINCIPLES

- Give yourselves at least three months to get the hang of this.
- Pick a tool and stick to it. Monarch Money, EveryDollar, and Quicken are ones we have experience running.
- Pick two days a week to track your transactions.
- Expect every month to be different.
- Your budget is ready when your income minus your expenses equals zero.

MAKE IT OFFICIAL

When you both agree on the plan during the meeting, say so out loud to each other.
Then spit shake and pinky swear.

PRO TIP

Whoever builds the budget does not get to make decisions in a vacuum.
If extra income or unexpected expense shows up mid-month, talk it through before you decide how to act.

THREAD FOUR

The Setup: Fill the jars in order.

Set up the budget in your chosen app in one sitting. First enter what you expect to happen in the planned column. Spend your income on paper, in order, until there is nothing left to assign. Order matters because the money might run out partway down the list, and you want it to run out on the things you care least about. For an irregular income, pick the lowest number you reasonably expect. If you're paying off debt, attack it with a vengeance by sacrificing wants.

THE ORDER YOU ENTER THINGS

1. Enter every source of income, in order of when you expect each payment.
2. Keep the lights on: housing, utilities, transportation, food, and insurance.
3. Add your generosity.
4. Add the minimum payment on every debt you carry.
5. Add your other needs, such as childcare and medical costs.
6. Put money toward the financial goal you are working on right now. This is where the rubber meets the road and willingness to say "Not yet" happens.
7. Add your wants, starting with the ones you value most.

PRO TIP

Give yourself a miscellaneous category with a realistic amount. This is not a slush fund. It catches the little things you forgot about, and it gives you room to shift numbers around when the month surprises you. $100-$200 is a good start.

THE NUMBER THAT TELLS YOU WHEN TO STOP

Every budgeting tool shows you how much income you have not assigned yet. It is usually called left to budget. As you enter expenses it falls toward zero, and zero is the finish line.

LEFT TO BUDGET

$1,480

You still have income with no job attached to it. Keep working down the list.

LEFT TO BUDGET

$0

Every dollar has a job. Your setup is finished and the month can start.

LEFT TO BUDGET

−$310

You planned to spend more than you expect to receive. Lower one category, starting at the bottom of the list, until this reaches zero.

The amounts above are an example. The next page shows the same three moments inside the tool itself.

Income − Expenses = $0

THREAD FOUR, CONTINUED

Adjust left to budget to $0.

To set up the budget, focus only on the planned column right now. Actual stays at zero until the month starts. Work down the list and watch left to budget shrink to nothing. Actual and remaining mean nothing until the month starts.

ONE · STARTING OUT

OCTOBER			LEFT TO BUDGET $1,480
CATEGORY	PLANNED	ACTUAL	REMAINING
Income	**$6,400**	**$0**	**$6,400**
Keep the lights on	$3,250	$0	$3,250
Debt payoff	$620	$0	$620
Savings	$1,050	$0	$1,050
Wants	$0	$0	$0
Miscellaneous	$0	$0	$0

Debt payoff holds only the minimum, two categories are still empty, and $1,480 has no job yet.

TWO · EVERY DOLLAR HAS A JOB

OCTOBER			LEFT TO BUDGET $0
CATEGORY	PLANNED	ACTUAL	REMAINING
Income	**$6,400**	**$0**	**$6,400**
Keep the lights on	$3,250	$0	$3,250
Debt payoff	**$1,520**	$0	$1,520
Savings	$1,050	$0	$1,050
Wants	$330	$0	$330
Miscellaneous	$250	$0	$250

$900 of the $1,480 went to debt payoff, this household's current goal. The planned column now matches the income.

THREE · YOU ASSIGNED MORE THAN YOU HAVE

OCTOBER			LEFT TO BUDGET −$310
CATEGORY	PLANNED	ACTUAL	REMAINING
Income	**$6,400**	**$0**	**$6,400**
Keep the lights on	$3,250	$0	$3,250
Debt payoff	$1,520	$0	$1,520
Savings	$1,050	$0	$1,050
Wants	$640	$0	$640
Miscellaneous	$250	$0	$250

A budget with a red number at the top is not finished either. When in the red, cut from the lowest priority first. In this case, you could lower Wants by $310 to get back to $0.

THREAD FIVE

Stay zeroed in throughout the month.

THE THREE NUMBERS TO CHECK IN EACH CATEGORY

Planned is what you gave a category when you set up your budget. **Actual is what you really spend throughout the month, and it is only correct if all of your transactions are in the right bucket.** Remaining is how you know when you're off your plan. Anything other than $0 remaining means you have an adjustment to make, so no category finishes the month in the red.

CHECKING IN THROUGHOUT THE MONTH

OCTOBER			LEFT TO BUDGET $0
CATEGORY	PLANNED	ACTUAL	REMAINING
Income	**$6,400**	**$6,400**	**$0**
Keep the lights on	$3,250	$2,980	$270
Debt payoff	$1,520	$1,520	$0
Savings	$1,050	$1,050	$0
Wants	$330	$460	–$130
Miscellaneous	$250	$95	$155

Wants is $130 over. Maybe you forgot your niece Suzie's birthday when you created the budget. It happens! Raise the planned amount for Wants to $460 and lower miscellaneous to $120, so both categories come back to $0 remaining. Your income never changed, so left to budget stays at zero the whole time.

WHEN A CATEGORY GOES NEGATIVE

Move money between categories. The income did not change, so left to budget stays at zero.

You forgot an expense, or a bill came in higher than planned.

Raise that category and lower another by the same amount. Pick the category you are most willing to give up, and agree on it together first.

Something cost less than you planned.

That category has room to give. Move excess to a category that went negative, or add it to the goal you are working on now.

WHEN THE INCOME ITSELF CHANGES

Change the planned income first. That moves left to budget off zero, and you assign or cut until it is back at zero.

You received more income than you expected.

Raise planned income to the real amount. Left to budget goes positive, so assign all of it: pay down debt, save more, or spend more on purpose.

You received less income than you expected.

Lower planned income to the real amount. Left to budget goes negative, so cut specific categories, chosen by what matters least, until it is zero.

PRO TIP

There will always be something during the month that entices you into unplanned spending. Practice saying "Not yet" by writing it down and adding it to next month's spending. There are very few things that cannot wait a few weeks.

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