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Organizing your financial records

Many people struggle every time they open their mail or e-mail. Is this important? Do I need this? Should I keep it? Should I throw it away?

Somewhere between the paper squirrel who saves everything "just in case" and the purger who tosses everything "in the trash" is the organized person for whom keeping records is no big deal. Becoming that organized person is not simple, but taking the steps necessary to get your financial records under control is a task with many rewards — first and foremost, a good night's sleep.

Keys to success

Having an organized approach to financial records can remove much of the stress associated with living in an increasingly complicated world. As children, parents, spouses, partners, investors, citizens, and employees, we all play many roles, each with a trail of paper attached. This information sheet will help you organize your records by touching on these key topics:

- What records should you keep?
- How long should you keep them?
- How should you keep them organized?
- How can you make sure that someone has access to your records in case of emergency?

What to keep

Knowing what records to keep can be as simple as knowing why you need them.

There are many reasons to keep financial records, as described below. In addition to keeping track of papers associated with day-to-day consumer activities such as making purchases and paying down debt, you probably have papers and documents that will only be needed in the event of an emergency, a death in the family, or an unforeseen turn of events.

That's why many experts suggest that you separate your papers by your need to use them, keeping short-term items together and long-term items together.

Immediate needs files would include items from the past year, including

- unpaid bills
- paid bills
- bank statements
- canceled checks
- credit card statements

continued

By the numbers

- **3 years** is how long the IRS has to initiate an audit.
- **6 years** is how long the IRS has to pursue underreported income.
- **Forever** is how long the IRS can pursue claims of fraud.

Key points

Death and taxes may be the most obvious reasons for keeping financial records. But keeping financial papers organized can also help you

- make timely payments
- prove ownership
- dispute errors
- document claims
- prove bills and debts have been paid
- provide evidence of purchases and transactions

- health records
- an updated resume or updated employment records
- income tax receipts for deductions, income, etc.
- major purchase receipts
- insurance policies

Your long-term files will include items such as

- bank statements (past 7 years)
- credit card statements (with home improvement expenses)
- canceled checks (past 7 years)
- receipts for home improvements
- warranties and operating instructions for appliances
- income tax records and back-up for previous three years
- gift tax returns
- inheritance papers
- retirement investment statements
- legal papers about formerly owned properties
- reports from trusts
- birth certificates
- Social Security cards
- burial vault/plot deeds
- wills/living wills
- powers of attorney*
- car titles
- house titles/deeds
- investment account statements (If end-of-year statements have all tax information, these are typically the only ones you need to keep.)
- pension plan statements
- annuities statements
- IRA statements
- mutual fund statements
- stocks and bonds

What about taxes

There are basically two types of tax information that you need to be concerned about: information you need in case of an audit and information you need to support your claims of income.

Backup for your returns. While false or fraudulent returns can be pursued forever, the IRS can audit you for up to three years from the date you file your return and can pursue under-reported income for up to six years.

Keeping tax returns and supporting documents for seven years (because the IRS has six years from when you file to investigate) is a reasonable approach to keeping tax documentation.

Exception: Because many of your important files will double as backup for taxes, if your tax returns contain information about home purchase or sale information, you should keep those records indefinitely.

A rule for keeping your documents: 3 - 7 - forever

Presuming that you will clean out your immediate and long-term files annually, here are some general guidelines for how long you should keep your documents. Your immediate and long-term files should be cleaned out at least once a year, with your short-term files either destroyed or placed in a long term file.

Be sure to shred any sensitive documents, especially those with account numbers, Social Security, and/or date of birth information.

Keep 3 years

- household bills
- credit card statements
- receipts for minor purchases

Keep 7 years

- canceled checks
- check registers
- bank statements
- pay stubs (If you worked at the same employer all year, your year-end stub should have all your information.)
- tax returns and supporting documentation

Keep forever or until assets are sold

- receipts for home improvements
- receipts for major purchases
- annual investment statements
- gift tax returns
- inheritance papers
- insurance policies
- mutual fund statements
- a copy of your will
- health care proxy forms

continued

Where to keep everything: a word on organization

Whether it's a file cabinet, boxes, or a shopping bag that hold your records, it's helpful to separate them by using file folders or tabs so it is easier to locate what you are looking for. While only you can decide the filing system that works best for you, remember to

- keep it simple — use generic and commonplace terms
- clean your files out once a year
- keep the most recent files accessible
- keep all files in one place

If you use the short-term/long-term split to the files, you may want to keep a "to be filed" area and jot the word "short" or "long" on each piece of paper. Again, during your annual cleanup, certain short-term files will become long-term files and others will be disposed of.

Computer users

Many people now receive financial statements over the Internet and store valuable financial information on their home computers, making your computer a critical source in the event that someone needs to access your records. It's important to back up computer files and keep the back-up data in a safe place and to provide computer passwords with your other important information.

Only you know the best way to keep your records, but experts agree that there are certain rules. Make your system easy to keep, easy to use, and easy to change. If you keep files this way you will have the added benefit of having a system that's easy for someone else to understand.

Safe deposit box

A safe deposit box can be a secure place to keep certain valuables and important papers, but some important items should not be placed in a safe deposit box.

What should you put in a safe deposit box

- stock certificates
- coins, stamps, and other collectibles
- auto titles, mortgages, and deeds
- original copies of birth, marriage, and death certificates
- adoption papers
- divorce and child custody papers
- videotapes or photos of contents of your home for insurance

What you shouldn't put in a safe deposit box

- original copies of wills*
- powers of attorney*
- insurance policies
- anything that may be needed in the event of death

A word of caution on safe deposit boxes. In the event of a death, safe deposit boxes may be sealed (inaccessible even to those with a key). While it makes sense to keep some original documents in a safe deposit box (see list above), only copies of those documents needed in the event of death, *i.e.*, wills, powers of attorney, etc., should be kept in a safe deposit box.

Providing a key – a letter of instruction

Chances are a relative, a neighbor, or a landlord already has a key that would let them into your home should an urgent need — fire, water main break, blackout, electrical emergency — arise. Leaving a key with someone makes good sense. Likewise, you should create a "key" to your important financial records and make sure someone you trust has possession of it.

Besides leaving a "key" in your house with your financial files, make sure at least one person you trust knows where it might be. Even a file marked "financial key" or "in case of emergency" in your financial files could be helpful to someone charged with piecing together your financial records. See below for an example of a "financial key."

continued

Your financial key is simply a list of where your important papers and files are, and who to call for more information about them. It may be a simple list like this:

Item	*Where to find*	*Whom to contact*
birth certificates	safe deposit box	Nora Joyce, Esq.
health care proxy	safe deposit box	Evan Gross, M.D.
will	firebox in attic	Nora Joyce, Esq.

Remember, regardless of how organized you are, if your papers cannot be found, they will not be useful to someone who may be trying to help in a crisis. Whether it's a spreadsheet or a list, having a "key" in the hands of someone who has access to your records can be extremely helpful in a time of emergency.

Finally

While organizing your financial records is not as simple as "when in doubt, throw it out," common sense does play a big part. When you think about filing a document, ask yourself if you have ever needed that type of information before and why you are keeping it. If the answers are "no" and "just in case," chances are it's okay to dispose of it.

Resources for additional information

Hemphill, Barbara, *Kiplinger's Taming the Paper Tiger at Home.*
Barbara Hemphill is one of the country's leading organizational experts. For more information on her books and seminars, please visit www.productiveenvironment.com

Ernst & Young's Financial Planning for Women: A Woman's Guide to Money for All of Life's Major Events, (John Wiley & Sons, Inc. 1999, $16.95).

Urban Programs Resource Network / University of Illinois
www.urbanext.uiuc.edu

Contact your investment professional for more information.

*Originals of sensitive financial documents like these should be kept with an attorney, if possible.

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