

NET GAIN



Scoring points for your financial future

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Control your piles of paper by organizing financial records

By Sandra Block
USA TODAY

*Most people spend more time organizing their iPods than their financial records, and that's unfortunate. With identity theft on the rise, it's more important than ever to keep track of your personal financial information. In today's *Managing Your Money*, we offer tips on how to get out from beneath an avalanche of paper.*

Maybe it's time for a new reality series: *Extreme Financial Records Makeover*. An army of financial planners and accountants, armed with file folders and a giant shredder, would descend on a household and organize the family's file cabinets.

Extreme Financial Records Makeover probably wouldn't attract as many viewers as *Wife Swap*, but it would have no shortage of eager contestants. In households across the country, drawers and file cabinets are overflowing with investment statements, bills, insurance policies and warranties for blenders thrown away years ago.



Worse, many families keep all this stuff "in a location that's not safe or private," says Nathan Mersereau, a financial planner at Oakland Wealth Management in Southfield, Mich. And when it comes time to locate important financial information, it's impossible to find.

You can conquer the mountain of paper if you understand what you need to keep and what you can safely shred. Some guidelines:

► **Tax returns.** The IRS has three years to challenge information in your

return and six years to conduct an audit based on unreported income, Mersereau says. So a good general rule is to keep your tax returns and supporting records, such as W-2s and 1099s from financial institutions, for at least seven years.

Some planners advocate keeping your tax records indefinitely. Your tax returns provide a snapshot of your household income over time. And there is no statute of limitations on audits if the IRS believes a return was fraudulent.

Most people are reluctant to discard tax records, says John Sestina, a Columbus, Ohio, financial planner. "If you've ever been audited, you'll understand why."

► **Investment statements for taxable accounts.** Most brokerage firms and mutual fund companies send annual statements summarizing the year's transactions. Once you receive one of these, you can shred your monthly and/or quarterly statements.

Keep records of the price paid for

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stocks and mutual funds. You'll need them to figure out how much you owe in taxes when you sell. Keep trade confirmations for up to seven years after you file a tax return showing a gain or loss from selling a security, Mersereau recommends. That way, you'll have supporting documents if the IRS questions your return.

► **Retirement plan contributions.** Keep records of contributions to non-deductible individual retirement accounts, such as a Roth IRA, indefinitely. You'll need these to prove you've already paid taxes on the contributions. Without them, you may find yourself paying taxes again when the money is withdrawn. Some financial institutions keep records of IRA contributions, but don't count on it, Mersereau says. "The burden of proof is on you."

► **Bank statements.** Keep statements that back up information on your tax returns for up to seven years. Other bank statements can be shredded after reviewing for errors.

► **Credit card statements.** Hold on to statements for big purchases, such as jewelry or large appliances. You may need them to file an insurance claim or a warranty. If you put charitable contributions on your credit card, keep the statement for your tax records. Other monthly credit card statements can be shredded once you've reviewed them for errors or unauthorized purchases.

► **Insurance policies, wills and other legal documents.** These documents should be kept indefinitely. Many people store their wills in a safe-deposit box, but that could create problems for your heirs if you die unexpectedly. Your safe-deposit box may be sealed until your executor or heirs can prove they're authorized to open it. You can avoid

that problem by putting someone else's name on the safe-deposit box, such as your spouse or a trusted relative, Mersereau says.

Alternatively, store the documents in a safe and accessible place, such as a fireproof box in your home, says James Kibler, a financial planner at Eldridge Financial Planning in New York. Make sure your heirs know where to find the key.

Saving trees

Storing documents electronically on your home computer offers several advantages: You can find information you need more quickly, and you're less likely to misplace an important document. Many financial institutions will provide electronic versions of statements and records. And for less than \$100, you can buy a scanner that will zap paper documents into your computer.

How to ensure your electronic documents are safe and accessible:

► **Back up everything.** A hard-drive crash could wipe out your entire financial existence in seconds. Transfer your records to a floppy disc or CD and store it in a safe place. Some programs will let you add password protection to your backup discs, which provides additional security.

► **Develop a system for naming files so you can locate them quickly.** Otherwise, you'll waste time searching for the electronic version of your brokerage account or your tax return from 1995.

Organizing your files

Whether you're storing documents on paper or electronically, it helps to designate folders for several categories

of documents. Sestina typically puts his clients' documents into the following categories:

► **Notes.** Notes from meetings with your financial adviser, attorney or your accountant. File them chronologically, with the most recent at the top.

► **Personal information.** Passport, birth certificate, driver's license.

► **Income.** Tax returns, budget information.

► **Net worth.** Non-investment documents, such as titles to your car and home mortgage.

► **Investments.** Statements from your brokerage, trade confirmations.

► **Business interests.** If you have self-employment income from a side business, use this file for contracts and other self-employment information.

► **Insurance.** Life, health, disability and auto policies.

► **Estate planning.** Copies of your will, power of attorney, health care proxy, living will and other estate-planning information.

► **Dependent planning.** Custodial accounts and other financial information for your children. If you're handling financial affairs for an elderly parent or other relative, store their financial information here, too.

Control your piles of paper

Objectives:

Students will:

- read and discuss the USA TODAY article entitled “Control your piles of paper.”
- research personal financial terms by using the Internet or talking to their parents.
- use a graphic organizer to categorize personal and financial documents.

Concepts:

- organization
- income
- net worth
- investments
- insurance
- estate planning
- dependent planning
- taxes

Preparation:

1. Prior to the lesson, copy the article and graphic organizer for each student.
2. Pre-reading: Ask students: Why is it important for adults to organize their financial records? What kind of documents do you think should be kept indefinitely? Which can a person discard almost immediately? What paperwork, if any, should students keep for more than a year? How important do you think organization skills are to academic success? To career success?
3. Distribute the article, “Scoring a financial education.” Have students read the story silently. As a class, discuss the questions on the following page.
4. Follow the instructions listed under “Activity” on the next page.

Activity at a glance:

- Grade level: 9-12
- Subjects: Economics, business, family and consumer science
- Estimated time for this activity: 60- 90 minutes

Materials:

- Reading: “Scoring a financial education”
- Copy of discussion questions and activity
- Graphic organizer, “Becoming a financial professional” (one per student)

Control your piles of paper

Discussion:

According to columnist Sandra Block, why do Americans need a new reality show called *Extreme Financial Records Makeover*? Why do some financial planners think people should keep tax records indefinitely? What other documents should rarely, if ever, be discarded? Is it necessary to hold on to credit card and bank statements? Where should wills be stored? What are the pros and cons of storing important records on your computer? In general, how would you rate your organization skills? What other pursuits require a person to be organized? How can organization skills improve the quality of an individual's life?

Activity:

Explain to students that while organizing documents may seem like a simple task, the amount of paperwork the average adult accumulates can become overwhelming if not efficiently managed. Plus, those who adopt a haphazard approach to paperwork will sooner or later pay the price. (For example, if you don't save the receipt and warranty for the new TV you bought, you won't be able to return it if it breaks after a month.)

Tell students that they are going to practice "filing" some of the documents they may encounter later in life. The information in the article will guide them. (If necessary, they can research unfamiliar terms on the Internet or by talking to their parents.) After completing the graphic, student pairs should compare and discuss their decisions.

Additional resources:

- Goodpayer.com offers a handbook entitled "Learn Now or Pay Later" that helps young adults understand the basics of credit and debt. The book is available as a PDF at www.goodpayer.com. The booklet also provides tips on choosing a checking account, writing a check, preventing identify theft and other personal finance topics. To order a copy, call 800-756-4912.

Activity extensions:

- Ask students to consider the paperwork they accumulate from school, extracurricular activities, a part-time job, etc. Then, direct individuals to develop five to 10 folder titles into which they could file most of their documents. (The titles of each file, like those on the following page, should be general rather than specific.)

Get organized!

Directions: Write the name of each document below next to the folder into which you would file it. Circle any items that you would discard. Refer to the article, and if necessary, use your research skills to locate information about unfamiliar terms. After, compare your chart to a peer's, and discuss any differences.

Documents

- ✓ Copy of vehicle registration
- ✓ Tax-deferred annuity statement
- ✓ List of top-performing mutual funds from your financial advisor
- ✓ Social Security card
- ✓ 529 education account statements
- ✓ 1991 tax returns
- ✓ Tax instructions for 2001
- ✓ Title to your boat
- ✓ Receipt for the laptop you use when working at home
- ✓ Will
- ✓ Child's birth certificate
- ✓ Medical bills and receipts
- ✓ Description of auto insurance
- ✓ Mutual fund statement
- ✓ Marriage license
- ✓ Monthly budget spreadsheet
- ✓ Living will
- ✓ 2003 W-2 form
- ✓ Mortgage refinancing information
- ✓ Auto insurance bills
- ✓ Statement that confirms your sale of 100 shares of Yahoo! stock
- ✓ Tax assessment on your home
- ✓ Phone bills from 1999
- ✓ Recent money market account statements
- ✓ College transcripts
- ✓ Visa statement that shows payment for your home's new roof
- ✓ Lease for the condo you own and rent to students

Net worth

Investments

Business interests

Notes

Insurance

Personal information

Estate planning

Income

Dependent planning
