

Get Organized! How to Maintain Your Personal Financial Files

By Paula Hogan and Joseph T. Conners

Are your file cabinets overflowing?

Everyone needs to keep certain personal financial files more or less permanently. But which files should you keep, and why do you need to keep them? How long should you keep them and in what format?

This article serves as a brief guide to organizing your personal paperwork.

Let's start with the most obvious question.

Why Keep All Those Papers?

You need to maintain personal financial files in order to prepare for any number of contingencies. These include:

Tax Audits and Calculations: Your tax return might be audited. Tax authorities at both the federal and state levels have the right to reopen your tax return at any time if there is a suspicion of fraud. However, most audits are designed to resolve less troubling discrepancies, with various audit deadlines typically set to occur within seven years. This audit risk creates the need to keep tax and supporting documentation in general for seven years.

You also need cost basis information for all your investments to protect against paying too much tax. That means keeping a record of original cost plus, in the case of securities, a record of all reinvested interest and dividend income, and in the case of real estate, the cost of any permanent improvements you might have made on the property.

Sales Disputes: In a sales dispute you are best prepared



if you have some kind of proof of your part in the transaction—e.g., a warranty for an appliance, or documentation that you have paid a home contractor in full, or that a particular insurance coverage is or was in place for a

specified time and situation.

A Natural Disaster or Terrorist Act: As victims of Hurricane Katrina experienced firsthand, it is possible that you could need to leave your home on short notice, leaving personal possessions and records behind. This possibility creates the need for duplicate offsite storage of personal papers, and also some plan for what you would take with you if you had just a few moments before evacuating your home.

A Personal Medical Event: In the event of your sudden death or incapacity, it's highly protective for you to have your named agents for medical and financial affairs fully informed of the details of your personal data, so they will be ready to act on your behalf.

Transmission of Family History: Each of us at some point becomes the means by which information about the family gets passed down to the next generation. Thus, there is a need to consider how and which family records to keep—including personal possessions, diaries, photographs and stories.

A Structure You Can Use

If you keep paper files, set up your filing cabinet with the major sections outlined below. If you prefer computer

files, set up personal folders as indicated, and then add scanned documents.

Income Taxes

Keep a copy of each federal and state income tax return filed in the last seven years, along with supporting documentation.

Estate Planning

Keep documents prepared by your attorney (including most typically wills, trust agreements, durable powers of attorney for both medical and financial affairs, and for married couples pre- and post-nuptial agreements), plus a copy of all gift tax returns and the beneficiary designation page for each retirement account and for each life insurance policy (ideally with documentation from the financial institution acknowledging receipt of the beneficiary designation).

Insurance

Have a separate file for each kind of insurance—for instance, health, disability, long-term care, life, property and liability, and car insurance.

For each policy currently in force, have a copy of the actual policy with the summary face sheet, a copy of the original application, and contact information for the insurance agent.

As a general rule, keep the same data for any policy cancelled or lapsed within the prior two years. Plus, keep the appraisals and purchase receipts for personal possessions that have specific insurance coverage (for instance, art work or jewelry).

In the life insurance file, add information about other potential death benefits (for instance, from credit card companies, the Veteran's Administration, or associations such as the American Automobile Association).

Employee Benefits

For each family member, have a file for the current and prior curriculum vitae and a file for each employer, past and present.

For current employers, keep the employment agreement, plus whatever information the employer gives you

each year about the benefit package. (Keep only the current copy of bulky employee manuals, but consider keeping all prior annual summary sheets of compensation details.) Establish a distinct folder for each company's deferred-compensation plan, restricted stock program, and each stock option plan, with all associated legal papers and correspondence.

For prior employers, keep the employment agreement, plus any separation agreement, performance reports and reference letters, plus documentation of how retirement and option accounts were closed or transferred, and documentation of retiree benefits including elections for pensions and insurance coverage.

Personal Roadmap

In the event of a community emergency or of your personal incapacity, you or your heirs need a detailed roadmap of your financial life.

This file is also a good place for a completed Roadmap for Heirs (see pages 26 and 27).

Home Inventory

Create a home inventory to use in the event of a major loss. Photographic documentation helps your memory and helps prove ownership. After a major disaster, insureds with a complete photographic home inventory tend to get the most prompt and complete reim-

bursement from insurance companies.

There are many books and software programs available for this purpose, as well as on-line subscription services for storing photographs (see box below).

Aim to have photographs, either still shots, videos or digital records, of each room and each drawer. (A dated newspaper in each shot helps confirm ownership as of a particular date.)

Keep a copy at home and also off-site.

Warranties and Owner's Manuals

This file holds warranties and owner's manuals for your everyday possessions that are not specifically insured—e.g., the lawn mower and the air humidifiers. Don't waste time maintaining this file in any particular order. Every year or two, edit the file. When you move, pull out the papers that stay with the house.

Proof of Transactions

At the beginning of each calendar year, establish an accordion file (or, for your computer, its equivalent for scanned files). Label each divider with a certain kind of transaction: Income (this would include pay stubs, Social Security, pension payments, rent or royalty income, and other income); and expenses (utilities, tuition, charitable contributions, credit card bills, insurance premiums, household help, medical expenses, tax payments, and whatever

On-Line Data Storage

Photographs can be stored either for free or for a modest annual fee at several sites including Flickr.com, Picasa.com, Snapfish.com and Kodakgallery.com.

Documents can be stored on the Web through various providers including .Mac for Mac users, or a subscription site offered through Yahoo! and other services such as Pro-SoftNet's IBackup and Xdrive services. In addition, most of the home finance software programs now offer on-line data storage including, for example, Quicken.

Note: While these services are proliferating, there is not yet an industry standard for protection of data, suggesting careful due diligence before posting your own data. On-line data storage is also not a sufficient backup plan since in an emergency that downs the Internet, you would lose access to that data.

Roadmap for Heirs

In the event of your sudden death or incapacity, your heirs or caregivers need a map of your personal affairs. Use the following list as a that allows you to fill in the information, go to the on-line version of this article at www.aaii.com and click on Roadmap Worksheet.]

Your Home

Security

- Name, address and phone number of anyone who has an extra key to your home
- Location of any hidden extra keys
- Instructions for turning off the security system

Employees

- Name, address and phone number of people who work for you
- Schedule and compensation arrangement of people working for you

Friends/Neighbors

- Names and phone numbers of friends and neighbors who know you and watch out for you

Local Police

- Emergency phone number
- Non-emergency phone number

Financial Records

- Location of financial and other personal records kept within your home
- Location of original copies of your will, trusts and durable powers of attorney
- Location of safe deposit box and location of key to safe deposit box

Home Computer

- Location of list of computer passwords

Your Personal Contacts

List those who you would like contacted in the event of a major incapacity or death. Give full names and contact information, including (where applicable) the name of the firm.

- Your adult children
- Your young child's schoolteacher
- Your young child's potential guardian
- Priest/rabbi/minister
- Social worker or retirement community ombudsman
- Estate planning attorney
- Business planning attorney

- Accountant
- Employer
- Insurance agent
- Veterinarian
- Friends/colleagues/other family members

Your Healthcare

Name, address & phone number for each:

- Primary & specialist physicians
- Pharmacy
- Preferred hospital
- Preferred nursing home
- Preferred retirement community
- Preferred funeral home

Prearrangements

Custodial Care

- Have you made prearrangements for custodial care?
Location of written details of prearrangements
- Have you purchased long-term care insurance?
Name, address and phone number of company
Location of long-term care insurance policy

Postmortem Preferences

- Have you prearranged for postmortem preferences?
Location of written details of prearrangements
- Would you like your body to be cremated, buried, entombed, embalmed, donated to science?
- Do you intend to make an organ donation?
- Have you purchased a burial plot? A headstone?
- Have you chosen a funeral home?
Location of written details of prearrangements

Data for Death Certificate

For each person this roadmap covers:

- Full legal name
- Social Security number
- Date of birth
- Date of death
- Birthplace
- Mother's full maiden name
- Father's full name
- Military veteran?
- Race
- Occupation and highest level of education
- Full name of surviving spouse (if applicable)

starting point. Keep it up-to-date in your personal financial files, and be sure your heirs have a current copy. [For a format

What You Own

- **Daily Bank Accounts (including CDs):** Name of bank and account number
- **Accounts Receivables (Does anyone owe you money?):**
For each, name the entity or person who owes you money and location of relevant papers
- **Investment Accounts (taxable and retirement):** Name of firm and account number
- **Life Insurance Policies:** Name of insurance company and policy number
- **Other Potential Death Benefits (e.g. Veteran's Administration):** Contact information and data required to identify yourself to that institution
- **Real Estate (your residence and all other properties):** Full address for each property
- **Special Personal Possessions:** Include collectibles and antiques with substantial monetary value, but also items that have more emotional than monetary value

What You Owe

Credit cards are listed in a different section. In this section, include information about each major debt, including:

- **Mortgages:** Include both first mortgage and home equity lines of credit. Provide name of financial institution, loan number and contact information
- **Car Loans:** Provide name of financial institution, contact information and loan number
- **School Loans:** Provide name of institution and loan numbers
- **Debts You Owe Other People:** For each debt you might have to another person, provide contact information and location of loan note.

Your Income

For each income source, name the entity providing the income, how

often you receive payments, and location of relevant contact information, including:

- **Salary income:** For each person, provide employer contact information
- **Social Security Payments:** Indicate to which account it is deposited
- **Pension:** For each pension indicate which spouse receives it, from which former employer, and payment schedule (e.g., annual deposit each May to National Bank)
- **Rental income:** Provide property address and payment schedule
- **Trust Income:** Provide name of financial institution holding trust assets and account numbers for trust assets
- **Alimony:** Provide contact information for source of alimony payments
- **Automatic Payments From Portfolio:** For each payment, provide the financial institution, account number and payment schedule (e.g., annual IRA withdrawal from Nat'l Brokerage Acct #xxx transferred automatically each May to First Bank Acct #xxx)

Main Expenses

In addition to regular utilities, property taxes, insurance premiums, and estimated tax payments, there are the following regular expenses:

- **Credit Cards:** For each credit card list name of company and credit card number. Include major credit cards as well as department store cards
- **Sums you have been sending to various individuals:** Give name, address, typical amount and frequency of checks
- **Various services that you have on some kind of regular arrangement:** Include contact information for landscaper, dog sitter, cleaning help, beauty salon, etc.

else is a part of your regular budget, as well as the all-important MISC section for things that don't seem to fit anywhere else).

In addition, keep a section for each bank account, and place each month's statement and cancelled checks for that account in that section.

As you take care of daily finances throughout the year, drop papers into the appropriate section of the accordion file. At year-end, use this file to help prepare taxes. Then, relegate the file to an archive storage location and begin anew.

Keep each annual file for seven years. Shred the oldest file as you add a new file each year. Don't fuss about keeping each section in order; if you drop the newest addition to each section in the back, the papers will be fairly well ordered.

Investments

Set up one file for each investment account. If the year-end statement shows the complete transaction history for the full year, just save each year-end statement. Otherwise, keep each mid-year statement, as well as trade confirmations, so that you can track cost basis for each investment when it comes time to sell.

Be sure to throw out the envelope stuffers that come with your statement along with annual reports and prospectus materials; only keep papers that have your personal data.

In addition, keep a distinct individual file for any other investment that you might have—for instance, shares in a limited partnership, or a rental property, or a loan to an adult child.

As investments are sold, move the cost basis documentation to the tax file for the year of the sale. If accounts are transferred to another investment firm, transfer the papers from the former

firm's file to the new firm's file.

Vehicles

For each vehicle you own, keep titles and, if you are meticulous, maintenance records.

Property

For each property you own, include the lease, or deed with closing statement, documentation of permanent improvements with receipts, appraisals, records of open mortgages and proof of former mortgages being paid in full.

Personal Papers

Have a distinct file for each family member. Keep birth and baptismal certificates, confirmation records, Social Security card, diplomas and professional licenses, wedding license, military discharge papers, proof of citizenship, divorce agreement, list of dates and facts that you would like mentioned in your obituary, data for your death certificate, cemetery plot information, final letters to heirs, preferred choice for custodial care providers and information about what kind of memorial service or funeral you want.

Family Passports

Keep passports in a distinct Family Passport file so that preparation for travel abroad is easy.

Family History

For each person in the family, have a distinct family history file. In this file, store individual medical information, such as immunization records, lab and X-ray results and operative reports.

Use this file also as a place to store odd bits of emotionally meaningful information—for example, when your uncle sends information on your family tree, or when your child writes a wonderful poem.

Some people consolidate these papers with the Personal Papers file.

Consider These Real World Issues

When you are setting up your files, be sure to take your personal circumstances into consideration:

- If you like to keep everything and your spouse likes to toss stuff out, find compromises—agree, for instance, to keep tax returns indefinitely but to throw out documentation that is older than seven years.
- If you are a techie in charge of the home finances, have you made sure that in an emergency, your non-techie spouse has easy access to needed information?

You should also make sure to go for a certain amount of redundancy. For instance, have you prepared for different kinds of disasters? If there is a natural disaster in your hometown you need back-up data stored out of town. If you have a minor file loss at home, it is best to have back-up copies accessible right in your home.

Most of us know that to securely maintain important files it is necessary to have a fireproof safe with a lock at home, preferably in a very discreet hiding place or access to a bank safe deposit box. If you have been assuming that paper files can be easily reconstructed (for instance, by your attorney, banker or financial advisor) at least inquire if each of the parties has addressed the need for off-site, secure data storage on your behalf.

Maintaining security for computerized files is an important field. Be sure to get periodic expert advice.

Importantly, insist on easy maintenance. As a general rule, the less likely that you will ever retrieve papers, the less time you should spend keeping that file in precise order. ▲

Paula Hogan, CFP®, CFA, is the founder of Hogan Financial Management LLC, a comprehensive fee-only planning firm based in Milwaukee, Wisconsin. She also maintains a Web site at www.hoganfinancial.com. Joseph T. Conners is a computer intern with Hogan Financial Management LLC in Milwaukee.