How to Tame Your Financial Records

Which of the following profiles describes your approach to managing your financial paperwork?

Type 1: The Pack Rat

I hang on to every financial document that comes into my house, in no particular order. My accountant shudders when she sees me coming at tax time.

Type 2: The Oversaving Maximalist

I have organized all of my financial paperwork into neat files, but they're now bursting at the seams. I'm sure I'm saving way more than I need to, but I don't have time to clean things up.

Type 3: The Smug Minimalist

I've signed up for electronic bill-paying and document delivery in an effort to reduce the flow of papers coming into my house. At this point, the mail I receive consists mainly of takeout menus and solicitations for charitable donations.

No matter your approach, the good news for all of us is that elaborate storage systems for physical financial documents are quickly looking like a vestige of a bygone era. Thanks to technology, it's possible to switch to a (mostly) paperless approach to your financial records. You can gain access to your documents via your providers' websites; any documents you'd like to save longer term can be stored electronically.

Essential to accessing and storing electronic documents, however, is maintaining good security habits. Technologies are rapidly evolving, and so are the rules about how to keep your information safe, whether you're browsing your information online or storing files on your computer, on an external device, or in the cloud. A good first step is to install regular updates to your software programs, including your browser of choice. Use a password manager like Dashlane or Lastpass to ensure industrial-strength, regularly updated passwords, and employ a security package that includes antivirus and antispam protections. It's also wise to encrypt the files on your hard drive. To help ensure the security of files you save in the cloud, it's crucial to maintain a strong password that you never share with anyone else.

Here's how to approach each key category.

Investments

Are you still receiving paper statements from your investment providers? Those paper statements could be costing you extra money, and chances are good that you can find an online version of any document you're receiving in the mail. That's doubly true for generic documents like shareholder reports and prospectuses; you can find those on your investment providers' websites as well as on Morningstar.com, on the "Filings" tab for mutual funds and ETFs. By opting out of mailed statements, you're reducing your vulnerability to identity theft, and you'll receive fewer (paper) marketing mailings to boot.

Before getting rid of your physical investment-related files, conduct a quick audit of your investment providers' websites to ensure that all of the information you like to see, such as details on your cost basis, is readily accessible online. (Can't find what you're looking for? Call your investment provider.) Owing to concerns about financial providers' recordkeeping and potential loss of information, some investors continue to save their own parallel investment records for their taxable accounts, documenting their transactions rather than relying exclusively on their providers' records. From a security standpoint, I like to see financial providers using two-step verification systems, whereby you receive a text on your phone with a code whenever you log onto your account online. This is often optional, but take advantage of it if it's available.

If you're a very long-term accountholder, be aware that while investment providers are now required to track cost basis—the amount you paid for any funds, stocks, or other securities in your portfolio—that wasn't the case prior to 2011. For securities purchased before that time, the onus is still on you to maintain records of what you paid, to determine your tax obligations when you eventually sell. If you've made nondeductible contributions to an IRA, you should also maintain documentation on those contributions to help ensure that you don't pay tax on that money again when you withdraw from your account. If you decide to save these or any other investment-related documents on your own computer or in the cloud, be sure you're following the security protocols outlined above.

Banking

As you did with your investment providers' websites, take a spin through your bank's website to see if you can readily access the documents you need; call for assistance if you can't find what you're looking for. And if you haven't yet made the switch to online bill-paying, doing so can result in massive time savings down the line and is also safer from a security standpoint than sending checks in the mail. Check out your bank's functionality for online bill-paying and sign up for two-step authentication if it's an option.

Tax Records

How long do you need to hold onto old tax returns and related records? Many of us have "seven years" burned into our brains, but that's only if you've claimed a deduction for bad debts or a loss on worthless securities. In most other situations, hanging on to the past three years' worth of returns should be sufficient. Hang on to your tax records indefinitely, however, if you've failed to file a return or have filed a fraudulent return.

Documents Related to the Current Year's Tax Returns

When it comes to supporting documentation for this year's tax return, it's helpful to keep a running file—either a physical file or a digital version. (You can scan and upload your documents to the cloud or onto an encrypted flash or external hard drive.) Consider saving receipts for charitable donations and out-of-pocket healthcare expenditures, to name some of the key items. Just bear in mind that owing to the new, higher standard deduction amounts, many fewer taxpayers are apt to benefit from these types of itemized deductions than in the past.

Hard-to-Replace Official Documents

While the list of physical documents that you need to save is shrinking, you'll need to find a safe place—ideally a safe deposit box—for a small handful of documents. On the short list are the following:

- Birth certificates
- Original Social Security cards

- Death records
- Marriage certificates/divorce decrees
- Property deeds
- Car titles
- Military discharge papers
- Articles of incorporation

Store hard-to-replace items that you use more frequently, such as passports, in a fireproof box in your home.

Wills, Powers of Attorney, and Other Estate Planning Documents

Because of the gravity of these documents, many people assume that it's wise to store them in a safe-deposit box. That's okay if you've added a trusted loved one as a joint owner of the box or put the box in the name of a revocable living trust, which enables your trustee to gain access to it if you die or become incapacitated. However, if you skip these steps and your loved ones need to gain access to the contents of your box, including your estate-planning documents, they'll have to obtain a court order, which holds things up. A better practice is to stash those estate documents in a home safe or fireproof box and let your loved ones know where to find them. I'm also a big believer in having a master directory that documents your key financial accounts.

Home-Related Documents

For any home that you currently own, hold on to documentation related to the initial purchase, refinancing, and home equity loans/lines of credit. Also keep a running file of any home-related improvements or upgrades that you've made, as well as legal and real-estate fees that you've incurred related to your home ownership. If you've sold a house, hang on to those records as long as you hang onto the related tax records—at least three and as many as seven years after your tax filing. (See above section on tax documents.)

Receipts for Valuables

These can be scanned into your computer and uploaded to the cloud or backed up on an external device. I'm also a fan of taking a video or photographic inventory of a home's contents. All of this documentation can be valuable for insurance purposes in case of fire, theft, or natural disaster.

Source: Christine Benz, *Morningstar*