

Keeping Organized

Do you know how much insurance you need, whether you have or need a will, how long to keep your tax records, and which items should be stored in a safety deposit box?

Are you keeping the right records to make the most out of your tax deductions and be protected from an audit?

Do you find yourself wasting time hunting through piles of papers every time you need to find a receipt, insurance policy, or credit card statement?

This chapter will walk you through some of the basics of determining how much insurance you need and how to ensure you keep accurate records in order to successfully make a claim. In addition to keeping an organized insurance file, we will also discuss maintaining tax records, title work, and all of those other documents which make up your own personal paper trail.

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Overview and Goals

Creating an organizational system that works for your family will save you time, money, and effort in the long run.

By keeping organized as a homeowner, you will have much more success in handling insurance claims and filing tax returns. This chapter will also cover such topics as general record keeping, items like birth and marriage certificates, banking statements, estate planning documents, retirement account records, and many others. It is important to know what to keep and also how long to keep records, and which items require the extra protection of safety deposit boxes or locked safes.

The goals of this chapter are:

1. To help you embrace the benefits of being organized.
2. To provide you with the tools to make smart decisions when purchasing Insurance.
3. To understand how to prepare for annual tax preparation.
4. To encourage and guide you in creating your own household organizational system.
5. To provide advice on which records should be kept and where.

Take-away messages:

1. Paperwork matters!
2. Know what to store and where to store it.
3. Plan for the unexpected.

The Benefits of Being Organized

Why keep and organize your records?

Saving and organizing your records can...

- ❖ Prove that you paid for a service or item.
- ❖ Save time and ease stress over locating records, especially at tax time or in an emergency.
- ❖ Help you pay bills on time.
- ❖ Document claims to collect insurance, veterans' or Social Security benefits.
- ❖ Dispute errors on credit card or banking statements.
- ❖ Show legal proof of marriage, birth, divorce, death, custody or citizenship.
- ❖ Have a starting point for determining your financial status.
- ❖ Keep family finances updated.
- ❖ Establish ownership and provide a basis for sound estate planning.
- ❖ Make it easier for your survivors to find everything.

Understanding Property Insurance

Insurance can salvage your family's life after a disaster or replace expensive items after a break-in. Without insurance, a homeowner is open to substantial risk. But even with insurance for your home and its contents, you may not be fully protected if you haven't started with some home preparation and organization.

If you have insurance already, are you sure that you have taken the steps to protect yourself?

This section provides basic information about property insurance, including a glossary of definitions at the back of the chapter. First, we'll discuss choosing an insurance policy. Next, we'll discuss taking the necessary steps to ensure you have proper documentation in order to successfully file a claim should the unfortunate occur.

Homeowner's Insurance

What should a standard policy cover?

- ❖ **Rebuilding & Repair Costs of the Home**
In case of Fire, Windstorm, Hail, Tornado, Vandalism, Smoke Damage, or other damage
- ❖ **Replacement Cost of Stolen or Damaged Items**
Computers, Furniture, Art, etc
- ❖ **Liability Insurance**
If someone is Injured on your Property, or if other property is damaged due to your negligence

Supplementary Insurance

You may require additional insurance if you live in an area which is prone to:

- ❖ **Flood**
- ❖ **Earthquake**
- ❖ **Mudslide**

Hazard Insurance

Your home is your greatest asset. Your lender will require that you have homeowner's insurance to ensure that the house is protected in the event of damage from fire, storm, or other natural causes. You will want to have your personal belongings covered. You will also want to think about funds for alternative shelter should a catastrophe like fire strike your home. Protection for only the physical damage that can be caused to the home is called "hazard insurance."

Liability

In addition to protecting your home, it is a good idea to have "liability" insurance which will cover costs if someone is injured on your property.

Deductible

Insurance policies come with a "deductible", which is the amount you the homeowner must pay toward damages before insurance kicks in. The higher the deductible, the more money you must have on hand to pay if something does go wrong. However, with a higher deductible your annual insurance costs will be lower because you pose less of a risk to your insurance company. It is important to choose a deductible amount that you feel comfortable paying and it is a good idea to keep that amount tucked away in an "emergency fund."

Replacement Cost versus Actual Cash Value

There are two types of homeowner's insurance policies, one which covers the actual cash value of your home and its contents, and the other which covers "replacement cost." Replacement cost policies are better because they will actually pay to rebuild the structure or repurchase the items you lost, although they are more expensive. The "actual cash value" policies will determine how much the items were worth at the time of the loss and pay you that amount.

For instance, a half-used roof has an "actual cash value" of about half the cost of a new roof. However, if a fire damages your roof, you cannot ask a roofer to replace it for half price. You would be forced to pay the difference out of pocket to make up for the insurance company's "actual cash value" reimbursement.

Purchase a "replacement cost" policy if at all possible since this is the actual cost of replacing something you use, and will save you money and heartache in the event of an emergency.

Steps to obtain Homeowners Insurance:

1. Determine the VALUE OF THE CONTENTS of your home. Walk through your home and make a list of your personal items. Save receipts and warranties for new expensive purchases. Take photos of expensive items like computers, stereos, electronic equipment, musical instruments, art, jewelry, and furniture.
2. Determine HOW MUCH insurance you need with the help of an insurance agent. The agent will help you figure out the approximate replacement value of your home by measuring the square footage and examining the materials used to build it.
3. Determine if there are any COMMON DISASTERS in your area that require additional insurance (floods, earthquakes, etc.)
4. Ask your insurance agent about DISCOUNTS. Often there are discounts if your home has dead-bolt locks or fire-resistant roofing material. Long-time customers may also be offered lower rates.
5. Keep an eye on your CREDIT HISTORY. Your insurance costs may be higher if your credit score is low, so work to build or maintain a high credit score.
6. Select the highest DEDUCTIBLE that you can afford. The key is to be able to afford to pay the deductible, a.k.a. the cost required of you before insurance kicks in. If you can save an emergency fund and feel comfortable with a high deductible, purchasing such a policy will have lower annual costs.
7. SHOP AROUND. Get estimates from at least three companies and compare prices. Use the following chart:

| | Insurance A | Insurance B | Insurance C |
|------------------------------------|-------------|-------------|-------------|
| Replacement or Actual Cost Policy? | | | |
| \$ Amount of Coverage | | | |
| Deductible 1 | | | |
| Deductible 2 | | | |
| Discount | | | |
| \$ Amount Liability Coverage | | | |
| Other | | | |

Warning

Choose an insurance company with a strong financial rating. Whether you're shopping around for a new carrier or you've been with an insurance company for a while, check with an insurance rating firm, such as A.M. Best (www.ambest.com), or with the National Association of Insurance Commissioners (www.naic.org). Select a company with at least an "A" rating to help insure that they will be there when you most need them.

If you need help

The National Association of Insurance Commissioners is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia, and four U.S. territories. The objectives of state regulators are to protect consumers and help maintain the financial stability of the insurance industry. For consumers looking for more information or for help with an insurance issue, the NAIC can be contacted at www.naic.org or the toll-free consumer hotline 1-866-470-NAIC (6242).

Nine Ways to Save on Your Insurance

1. Increase the amount of your deductible
2. Combine your homeowners, auto, and other insurance coverage into a blanket policy
3. Ask about other homeowners insurance discounts
4. Don't buy homeowners coverage you don't need (e.g. don't cover jewelry if you don't own any)
5. Make your home a better insurance risk, ask your agent how.
6. Keep your insurance up to date, including recent improvements and major purchases
7. Check for risks like pools, trampolines, and certain breeds of dog (e.g. Rottweilers, Doberman Pinschers, pit bulls) that may increase the cost of your policy or limit or void it.
8. Keep up your credit score
9. Shop around for insurance

Preparing for the IRS

Organizing for Insurance is a big job, but once you've done it, the file can be relatively easily maintained, adding to it when you make large purchases or annually reassess your home's value. Organizing for Income Taxes, on the other hand, is an ongoing job year-round, paying off each and every spring.

Keeping a "taxes file" of important documents will make tax season easier. Here are some of the items to *put in your file when you receive them* in order to facilitate a stress-free tax-time.

Income documents

- ❖ W-2s
- ❖ 1099s
- ❖ Proof of jury duty pay
- ❖ Proof of alimony you received
- ❖ Social Security statement (1099-SSA)
- ❖ Dividend and interest statements (1099-DIV and 1099-INT)
- ❖ Retirement distributions (1099-R)
- ❖ Brokerage statements (1099-B), along with statements showing when you bought and sold your investments
- ❖ K-1 statements reporting profits from partnerships, trusts, and small businesses,
- ❖ Record of income and expenses for your rental property
- ❖ Record of income and expenses for your self-employment

Other tax documents

- ❖ HUD-1 Escrow statement for property you bought or sold,
- ❖ Summary of moving expenses,
- ❖ Summary of educational expenses (college tuition),
- ❖ Summary of your child care, day care, or adult day care expenses,
- ❖ IRA contributions (traditional, SEP, or rollovers)
- ❖ Student loan interest paid (1098-E)

Tax deduction documents

- ❖ Health care expenses (doctors, dentists, health insurance, eye care, medicine)
- ❖ Real estate taxes
- ❖ Motor vehicle registration
- ❖ Mortgage interest paid (1098)
- ❖ Gifts to charity
- ❖ Last year's tax preparation fees
- ❖ Job-related expenses (union dues, job education, uniforms)
- ❖ Loss of property due to casualty or theft
- ❖ Gambling losses

Adapted from <http://taxes.about.com>

Creating a Household Record Keeping System

Now that you've seen how important organized records are for insurance and tax purposes, you may also begin to see how an organized record system will make many parts of your life easier. With an organized system, you will be able to better track spending and find receipts warranties when you need them. You will be able to find important documents needed for travel or official purposes.

All of this means that with a little organizational time up front, you will save time and stress in the long run—time that can be better spent enjoying your family, friends, and other activities.

Establish recordkeeping ground rules

1. There is no one perfect system, so design a system that is easy for you to use, maintain and update.
2. Develop a system that is easy for other household members or a trusted friend or relative to understand and use, if necessary.
3. Choose appropriate places to keep your records. Select a home office, a kitchen drawer, file cabinet or a covered box in the bedroom. Work space nearby is ideal.
4. Decide who will be responsible for recordkeeping. Encourage family members to cooperate with the system. Spouses may want to take turns handling recordkeeping tasks such as paying bills, filing papers and reviewing files.
5. Establish a regular routine and time to do the paperwork needed. Use this time to review past spending and make any needed changes.

How to organize a home filing system

To get started, make a list of the different files you will need for your records. Then buy a box of file folders, labels or colored tab markers, and a file cabinet, covered cardboard boxes or accordion folders. Label each file folder, and place in the file cabinet, cardboard box or accordion folder. Color coding is a good way to highlight different sections of your files. An alternative is to use a three-ring binder or notebook with pocket dividers to store papers. Label the dividers according to the types of records you keep.

Filing tips

Alphabetize or color code each major section of your files. When your folders are ready to file, place them in alphabetical order within each major section. For example, begin with Estate Planning and end with Property Records or Retirement Records. If you have several investments, you may want a file folder for each mutual fund, stock, or bond that you own, filed in alphabetical order. Within each folder, keep the records in chronological order, with the more recent information in front. When you receive the annual statement listing the year's activities, discard previous monthly or quarterly statements. Review your files annually.

Next, set aside enough time to review your information, and determine where to file each folder: with your current active records, permanent active records at home, permanent records for safe deposit box, or inactive records for long-term storage at home. Use the chart on page 2.

After you have sorted all your records and materials, review the contents of each file folder. List in pencil on the folder front the contents of each folder, as well as the date you last reviewed the contents.

Where to keep your personal and financial records

According to *Money 2000 and Beyond: Organizing Your Financial Records*:

Set up your filing system into the following areas:

- ❖ Current active records that you use or refer to regularly
- ❖ Records you carry with you
- ❖ Permanent active records at home
- ❖ Permanent records in a safe deposit box
- ❖ Inactive records for long-term storage at home

Current active records

Keep these files handy and near a work area, since you may need to add to them and work from them several times a week.

- ❖ Current bills — This folder contains incoming bills. When bills are paid, mark the payment date and check number, then transfer them to papers to file or permanent records.
- ❖ Papers to file — Except for current bills, store papers here until you review them and store in a permanent file or toss.
- ❖ Spending plan and expense records — Keep a copy of your monthly spending plan, list of financial goals and expense records. To track your monthly income and expenses, use a notebook or account book.
- ❖ Banking records — Store your monthly checking/savings account statements, canceled or duplicate checks for the current calendar year. Then move those needed to prove tax deductions or for investments to permanent active records.
- ❖ Loan payments — Keep payment books and account statements for mortgage, vehicle, student or other installment loans.
- ❖ Tax records — Use a large envelope to collect records for your income tax returns. Keep a running list of deductions. When you have filed this year's return, move to permanent active records.
- ❖ Business expenses — Keep receipts for business-related meals, gas, lodging, and other business-related expenses. If you itemize these on your tax forms, store in your permanent active records with a copy of your tax return.
- ❖ Personal — Keep copies of the records you carry with you in case they are lost, stolen or misplaced. You can also use this file for letters to answer, other correspondence, address lists, and a calendar of special dates.

Records you carry with you

Several records should be kept in your wallet and your vehicle:

- ❖ Cards to keep in your wallet include your driver's license or Wisconsin ID, credit or debit cards, health insurance cards, medical information for emergency treatment, and membership cards.
- ❖ Records to keep in your vehicle include your vehicle insurance card, vehicle identification and registration cards.

Permanent active records at home

Use this file for longer-term storage of important records and information. Over time or as situations change in your life, you may need to add, delete and update these records. It's a good idea to review your files at least once a year.

Personal records

- ❖ Employment and education — Employee pay stubs or statements, benefit information and statements, resume, copies of contracts, letters of recommendation, transcripts, awards and diplomas
- ❖ Health — Immunization records, doctor and dental visits, medical history such as illnesses and surgeries, allergies, prescriptions, blood type, living will (Declaration to Physicians), and/or power of attorney for health care.
- ❖ Insurance — Current health and long-term care policy documents or policies and a list of the companies and phone numbers
- ❖ Personal/professional advisers— Name, title, address and phone number for ready reference
- ❖ Travel documents — Passport if you travel often, and copy of birth certificate
- ❖ Subscriptions/memberships — Lists of publications and organizations, renewal dates and dues/costs

Property records

- ❖ Housing — Copy of your lease if you rent, mortgage payments, receipts for home repairs and improvements
- ❖ Vehicles — Purchase receipts, registration information, and maintenance and repair records on all vehicles — cars, trucks, boats, recreational vehicles, snowmobiles, all-terrain vehicles (ATVs), etc.
- ❖ Household furnishings inventory — Receipts, warranties and instruction booklets for appliances and furnishings, copy of the household inventory. Remember to update your inventory every six months or whenever you make major new purchases.
- ❖ Insurance — Homeowners or renters policies, vehicle policies, claim forms and information
- ❖ Keys — Place extra keys to safe deposit box, vehicles and home in a sealed, labeled envelope.

Financial records

- ❖ Checking and savings accounts — Monthly statements, canceled or duplicate checks, check registers, passwords/PINs (personal identification numbers)
- ❖ Credit cards — List the company, account number and phone number to contact if the card is lost or stolen. Also keep monthly statements, paid bills, account information, cardholder agreements.
- ❖ Loan accounts — Statements and paid receipts
- ❖ Net worth statements/spending plans — Keep several years' worth.
- ❖ Tax records — Keep copies of income tax returns and documentation including income data and receipts or records that prove tax deductions.
- ❖ Safe deposit box inventory — Note location of box and key, list what you keep there.

Investment and retirement records

- ❖ Certificates of deposit — Keep a list of account numbers and quarterly interest statements.
- ❖ Stocks and bonds — Purchase and sales records, annual reports, brokerage statements. You may want to keep a separate folder for each account if you have more than one.
- ❖ Mutual funds — Purchase and sales statements, prospectus and annual reports. You may want to keep a separate folder for each fund account.
- ❖ Pension plans — Quarterly account statements and annual reports
- ❖ Individual retirement accounts (IRAs) — You may want to have separate folders for traditional and Roth accounts. Keep records of amounts that are deductible and non-deductible for tax purposes. Keep tax records with IRA information as long as you live.
- ❖ Tax deferred retirement accounts — Contracts and quarterly statements for 401(k), 403(b), deferred compensation or other employer-sponsored retirement accounts
- ❖ Annuities — Contracts and regular account statements
- ❖ Social Security — Benefits information and earnings statements

Estate planning documents

- ❖ Wills — Copies of wills, lists of personal property for distribution (memorandum for distribution of tangible personal property), names of personal representative, and letters of final instruction
- ❖ Powers of attorney for finances
- ❖ Trust agreements — Copies of trust agreements and other legal documents
- ❖ Life insurance policies

Permanent records for safe deposit box

Keep records and other items that you cannot replace — or that would be costly or difficult to replace — in a safe deposit box at a financial institution or in a home fireproof safe. These items may include:

- ❖ Birth, adoption, baptismal, marriage and death certificates
- ❖ Citizenship papers, passports if you do not travel often
- ❖ Military service records
- ❖ Custody agreement, divorce decree
- ❖ Original property documents such as mortgage papers, deeds and titles to real estate, vehicle titles
- ❖ Household inventory on paper, photos or video, serial or identification numbers
- ❖ Copies of wills, trust agreements, and advance directives such as living wills (Declaration to Physicians), powers of attorney for health care and finances
- ❖ Checking/savings account numbers and financial institutions
- ❖ Bank, brokerage and credit card numbers and issuers' telephone numbers
- ❖ Rare coins, stamps, gems and other collectibles
- ❖ Certificates of deposit (CDs)
- ❖ Stock and bond certificates, including government bonds
- ❖ Contracts and other legal papers
- ❖ List of insurance companies and policy numbers
- ❖ Copies of Social Security cards

Safe Deposit Tips:

For married couples, it's a good idea to have names of both husband and wife on the safe deposit box, so that either one can have access to the contents. Review the contents of your safe deposit box annually, and update the contents list for home storage.

You may also want to photocopy original documents and keep the copies in your home permanent files for easy reference.

Inactive records for long-term storage at home

Select a time at least once a year to review each permanent active file:

- ❖ Discard any record that has expired or been replaced, such as the manual for a discarded appliance, or paid utility bills.
- ❖ Transfer to inactive storage other items that pertain to an important event in your life or those you may need to refer to in the future. The file headings may be the same as your permanent active records. Store these files in a closet, an attic, basement or garage.

Adapted from *Money 2000 and Beyond: Organizing Your Financial Records*. Lepeska, Mary Fran. 1999. Cooperative Extension Publications.

How Long to Keep Records

The Internal Revenue Service (IRS) has a three-year statute of limitations on auditing a tax return. If you use income averaging, you would need to prove your taxable income for four base years. If you fail to report more than 25 percent of your gross income, the government has six years to collect the tax or start legal proceedings.

However, filing a fraudulent return or failing to file a return eliminates any IRS time limit. Many financial advisers recommend keeping tax records and supporting materials permanently — not only for tax purposes, but also as proof of employment and income for other financial concerns.

Keep copies of federal and state income tax returns as long as you live if they contain IRA information. Keep health and legal records as long as you live.

Keep canceled or duplicate checks, receipts and bills marked paid for major purchases such as furniture, appliances and computers as long as you own the item. Keep documentation of home and property improvements and investments as long as you own the property and investment.