

Let's Talk Finances

Creating an Organized Financial System



By Charles Schmalz
President of
East Wisconsin Savings Bank

There is a lot of paperwork involved when handling your finances. Each month you have bills to pay, every year you file a tax return, you have receipts for purchases and you have important documents that deserve special attention. Having an organized system instead of just putting everything into a drawer or box can save time and reduce the stress of not being able to find something when you need it.

Some general record keeping guidelines

- Tax information - There is a general three year statute of limitation for your taxes. This means the IRS has three years from when you file your return to start an audit. (There is no limit for fraudulent returns). Therefore, you need to keep documents that support items on your tax returns for those three years. Each year you can throw out the three year old documents, but you should keep copies of tax returns forever.
- Storage of important papers - There are some papers that deserve special attention. Documents to keep forever include: wills, powers of attorney, birth certificates, marriage documents, divorce or child care orders, trust documents, business agreements, military records and other such permanent records.
- There are other documents that should be kept as long as they may be needed:
 - Insurance policies - as long as they are in effect or until a claim could no longer be filed.
 - Loan documents - until they are paid off.
 - Deeds and real estate papers - as long as you own the property plus any period for tax purposes.
 - Employee benefits information - as long as you are employed or until the benefit no longer exists.
 - Investment records - as long as you own the investment plus the three year tax reporting period.
 - Receipts and warranty information on major purchases - as long as you own the item and could make a claim.
- Monthly statements - Each month you receive bills, statements and other financial information that you need to handle. There is a great temptation to keep everything, but that is really not needed.
 - Recurring monthly bills - Once you have paid your insurance, rent, mortgage and utility bills, there is no need to keep them. You will have a canceled check to document payment and unless there is something special about the bill, you can dispose of them.

- Credit card statements - Even though there is no requirement to keep these statements, you may want to save them for some period (a year) in case there is a dispute, you want to return an item or if you want to be able to analyze your spending.
- Bank statements and canceled checks - Some people keep every canceled check and others toss most of them. Certainly you should keep canceled checks that support any tax deductions and any that you think may come in handy. Otherwise, canceled checks can take up a lot of space. Bank statements are a bit different. You may want to keep them for some period (three years or so) so you can document your payments for important items. Together with your checkbook register, you would be able to identify when and how much you paid for almost anything.

Creating a filing system

Most people end up using filing folders in a drawer to keep their financial records. If you do not have a drawer to use, buy a plastic storage bin. Buy a box of folders and label them for each type of expense you normally have and for other types of records you plan to keep - rent, utilities, auto, insurance, home ownership, family, employment, bank statements, retirement, medical and any other categories you consider useful. File folders are inexpensive so you may want to buy a box of them and create new folders when you like.

Once you have the files set up, you just put your receipts, statements and other information into them. There is a good chance that some of the folders will get quite bulky over time. When that happens, you can start a new one or better yet, toss out what you do not need.

Paying your monthly bills

There are only two general rules that apply here:

- Pay all bills before any late payment fees are charged.
- Keep accurate records.

You receive bills throughout the month and each has a due date. These due dates will be different and spread throughout the month. Therefore, you should pay bills twice a month. Since some of the due dates will be the end of the month and you must count on a couple of days for mail, consider the 10th and 25th of the month as bill paying days. Sticking to this schedule will make it simple and you will avoid late fees.

When a bill arrives in the mail, open it, take a quick look at it to make sure there is nothing unusual about it and put it in a file folder (the "To Be Paid" folder). On the two days each month you pay bills, simply take that file and pay the bills. That is also when you should look more carefully at each bill. That way, you will become more familiar with how you are spending your money and you can have a double check to make sure that everything is accurate. After the bill is paid, you should write the date you paid it and the check number on the bill. You then just file the bill or statement in your file folder that that category.

Managing your checking account

Accurate financial records, especially with your checking account, are a must. You need to know how much money is in your account before you write checks and you must avoid bouncing checks. This means you have to record each check and ATM transaction. This sounds simple, but it is easy to forget an ATM withdrawal or write a check and forget to record it. Recording each withdrawal and check is simply a habit you must develop.

And, you must reconcile your account each month. Your checking account statement has a form on the back. You may want to consider using personal finance software like Quicken or Microsoft Money. You can write checks with these programs and they make balancing your account easier. If you use this type of software, do not forget to enter your ATM transactions and individual checks you write.