Can I Throw This Financial Paperwork Out?

By Christine Benz | 03-16-17 | 05:00 AM | Email Article

One of the most common sources of confusion regarding financial matters doesn't relate to investments, or how to get rid of debt, or how to invest for college.

Rather, it's a lot more mundane: Which financial documents do I need to hang on to--and for how long--and which can I safely toss or shred? And where should I keep my truly important documents, like the deed for my house or my will? A safe deposit box at the bank seems hopelessly antiquated, especially to younger investors. Does everyone really need one?

The good news: Thanks to technology, most of us receive many fewer financial documents than we once did, and thus have fewer papers to contend with. Moreover, even documents we'd like to keep can be stored electronically. Electronic documents are less vulnerable to identity theft issues than paper documents, as well as natural disasters like fires or flooding.

But technological advances give rise to additional questions, such as how best to back up valuable electronic documents. Is the cloud safe, or are you better off storing your valuable e-documents on a backup device such as an encrypted flash drive? Is it OK to rely on your financial providers to keep records of your investment transactions, or should you keep your own records as backup?

Here's the skinny on how to handle your key financial documents: which ones you need to keep (and where/how to store them), as well as which you can safely trash or shred.

Tax Documents
How long to save tax records is a hot topic this time of year, as tax season shines the light on the fact that many of us are sitting on tax documents dating back a decade or more. Most people like err on the side of conservatism--often for seven years or more--because the right answer is "it depends." In most situations, holding on to tax returns and supporting documentation for three years after you've filed the return is sufficient, but there may be situations when a longer holding period is warranted, as outlined in this IRS posting. If you want to be on the safe side, hold onto your tax documents for seven years.

Note that you're not just hanging on to the return itself, but to all of the documents related to that return: W-2s, 1099s, mileage logs, documentation of charitable contributions, and so on. Store these tax documents in a fireproof box/safe or scan and upload to a cloud-based system or onto a backup device, such as a flash drive with encryption. If you decide to get rid of tax documents, they should go into the shredder.

Investment Statements
It's a best practice to receive your investment statements, whether for your 401(k), IRA, or taxable brokerage accounts, electronically: Not only will you reduce the threat of identity theft that accompanies the mailing of paper statements, but you can also avoid account-maintenance fees that can be levied upon recipients of paper statements. Review these statements after you receive them to make sure

they correctly document any transactions you've made over the covered period; this is valuable whether you're investing in a company retirement plan like a 401(k), an IRA, or a taxable account.

Before you go entirely paperless and rely on your provider's documentation of your accounts, however, make sure the information on the site matches what's in your existing records. (That's no small feat.) Owing to concerns about financial providers' record keeping 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. (This thread on Bogleheads.org debates the pros and cons of relying on your financial providers' records or maintaining your own.)

Cost basis is another consideration, assuming you have some assets in a taxable account. If you made trades before the time when financial services providers were required to track cost basis for you--these regulations went into effect for various accounts from 2011 through 2013--you'll need to keep track of those earlier trades and cost basis yourself.

If you've made a nondeductible contribution to a traditional IRA, be sure to keep a record of the transaction, as you wouldn't want to be taxed on that amount again when you pull money out or convert the IRA to Roth.

Generic documents with no personally identifying information, such as prospectuses and annual reports, can go into the recycling bin; such shareholder literature can be a bulky source of financial clutter, and can be readily retrieved online if you need it.

Bank and Credit Card Statements
As with your investment statements, electronic document delivery of credit card and bank statements is ideal. But if you're still receiving paper statements, they can be shredded upon receipt and review. If it turns out you need a document later on--to serve as documentation for your tax returns, for example--you'll be able to retrieve it online with your provider.

Documentation of Current Year's Deductions
If you itemize your deductions on your tax return, be sure to hang on to receipts and other documentation for any deductions you plan to make that year. (This documentation can be in paper form or you can scan and upload those documents to the cloud or onto an encrypted flash drive.) The annual statements available for credit cardholders can serve as valuable tools for your tax reporting; if you've charged charitable contributions or out-of-pocket medical expenses to a credit card, for example, you'll be able to see them bunched together on that statement.

Receipts for Big-Ticket Purchases
These can be stored along with their user manuals, or scanned in to your computer and uploaded to the cloud or backed up on an external device. (Good news for those of you hoarding user manuals: You can usually find manuals for everything from new vacuum cleaners to cellphones online, so there's no need to save the paper ones unless you find them easier to read, are worried about needing them when you don't have access to the Internet, or the items are old.)

Home-Related Documents
You know how it is when you buy a house, sell a house, or refinance: You sign

what seems like 100 documents and leave with a huge sheaf of papers that you put in a drawer and probably never look at again. Do you need to keep them?

Hold on to any documentation for the home that you currently own: documentation on the initial purchase, refinancing, or HELOCs, for example. You'll also want to maintain documentation on any outlays when you bought the home or after: legal and real estate fees, as well as receipts for any any improvements that you've made while you've owned the property. You can use those amounts to offset any capital gains tax you might otherwise owe. 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.)

Irreplaceable Documents
The following items, which at a minimum would be a pain in the neck to replace if lost or destroyed, are best stored in a safe deposit box: birth certificates, marriage licenses, divorce decrees, and death certificates; original Social Security cards; articles of incorporation for businesses; car titles; property deeds; and military discharge papers. Items that would be hard to replace but that you use more frequently, such as passports, or best stashed in an in-home safe or fireproof box.

Wills and Estate Documents
Many people assume the best place for their wills and planning documents is in a safe deposit box, but that’s only true if you've added a joint owner to 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. If the documents are in the safe deposit box and you haven't taken those steps, your loved ones will need a court order to gain access to the box; that is likely to entail costs and time. If you don't have a joint owner on your safe deposit box and it's not in the name of a revocable living trust, stash these documents in a safe or fireproof box at home; let a trusted loved one know how to access them in a pinch. (This is also a good spot for a master directory, outlined here.)

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