

Create as many categories as you need. Add subcategories if you wish. For example, if you make substantial improvements to your home, you might keep those receipts in a separate file so you can adjust your cost basis when you sell.

#4. Decide how long you need to keep each document

If you've been living without a good filing system, you may be keeping every piece of paper that comes in, for fear you might throw away something important. After doing this for a few (or a lot of) years, you are living with the consequences: too many papers! The day of reckoning is now at hand: Start going through your documents and figure out what you need to keep and what you can (really!) throw away.

Allocate sections of your file drawer to short-term files and long-term files. Short-term files are for the current calendar year and will hold such items as unpaid bills, paid bills, bank statements, credit card statements, and receipts for items purchased during the year. At the end of the year you can toss some of these papers, such as utility statements and receipts for items that: 1) you know you will not be returning to the store; 2) are not tax-deductible; and 3) are not associated with a warranty or major home improvement.

The papers you are keeping, such as bank statements, credit card statements, and receipts for home improvements, will be transferred to your long-term files. This will leave all the short-term file folders empty for bills and statements arriving during the coming year.

Your long-term files should be kept in a fireproof safe or filing cabinet, preferably a portable one that you can grab in case of disaster or emergency.

The following documents will go into your long-term files:

- Bank statements (keep for seven years)
- Credit card statements (keep for seven years)
- Receipts for home improvements (keep as long as you own the home)

- Receipts for major purchases (keep for the warranty period)
- Operating instructions for major purchases (keep as long as you own the item)
- Investment account statements (if year-end statements have all the tax information, these are the only ones you need to keep)
- Retirement account statements
- House papers: titles, deeds, mortgage documents
- Automobile records (keep for as long as you own the car)
- Insurance policies (keep current ones; toss the ones no longer in force)
- Estate planning documents (will, trust, power of attorney, health care directive, prepaid burial papers)
- Copies of tax returns

Also in a section of your long-term files, to be kept indefinitely, will be your vital documents. These include:

- Passports
- Birth certificates
- Marriage certificates
- Divorce decrees
- Social Security cards
- Military records

#5. File your documents

Once your folders are all set up, it will be simple matter of putting each document where it belongs. If you encounter a document that doesn't quite fit in any of your existing categories, create a new file folder. Keep doing this as much as you need to. It doesn't hurt to have too many folders, especially if it will help your loved ones better understand what you have.

#6. Stay on top of it

Once you have a manageable system in place, it will be easy to stay on top of it. When a bill comes in, put it in the Unpaid Bills folder. After you pay your bills, put the statements in the appropriate Bills Paid folder. When bank and investment account statements come in, put them in the appropriate folder.

At the end of the year, empty the short-term folders. Pull out the documents you'll need for tax filing and set them aside. Transfer account statements to the long-term section, along with receipts for major purchases and other items that may have landed in the short-term section but that you want to keep. Receipts and

statements that have outlived their purpose (i.e., are not needed for taxes) can be thrown away.

An up-to-date, well organized filing system is a gift to yourself. No longer will you have to search for a particular document when you need it because everything will be immediately at hand. It is also a gift to your loved ones, who will be grateful to have quick and easy access to your records if the need ever arises.

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