

YOUR MONEY

Tips for getting your financial papers in order

There's something about January that stirs the organizing spirit in even the most chaotic households (including mine).

Maybe it's starting a new year, or getting all your tax statements in the mail.

Or maybe it's because the weather's gray and you're stuck inside anyway.

In any event, getting organized can give you a handle on your finances. It can even be profitable. When my teenage daughter recently cleaned up the piles of paper on her desk at home, she discovered a birthday check from the grandparents.

Organizing papers is the most common job professional organizers do, said Gayle Gruenberg of Park Ridge, an organizer who is also a certified public accountant.

Here are a few ideas on how to handle the endless flow of paper:

■ First, reduce the stream of paper that comes through the

front door in the first place.

Sign up for online and automatic bill-paying. Cancel the magazines you rarely read and the catalogs you never buy from.



KATHLEEN LYNN

PERSONAL
FINANCE

■ Deal with the mail as soon as it comes in.

Have the shredder and the recycling bin nearby as you do your sorting, so that you can dispose of junk immediately.

Credit-card applications with your name on them should be shredded.

■ Figure out a system for the papers that need to be kept for the short term (such as bills to be paid this month) and the long term.

You can set up files in a cabinet, or use the Homefile organizer, which is recommended by financial educator Patricia Q. Brennan of Rutgers Cooperative Extension of Morris County. It costs \$24.95 (available on Amazon.com or at homefile.net).

■ Know what you need for the long term.

Keep federal tax returns for at least seven years, along with all the documents supporting your deductions, such as property tax bills and records of charitable contributions. The Internal Revenue Service has six years to challenge your return if it suspects you underreported income.

Keep the year-end statements from your mutual funds or brokerage accounts as long as you hold them.

When you make a sale, you will need to know how much you paid for tax purposes. Similarly, keep records related to

your house purchase and improvements, which you will need for tax purposes when you sell.

Keep yearly statements from your retirement plans.

Most phone bills, utility bills and credit card statements can be tossed once you're sure they're accurate. However, you should keep the bills if they represent potential business deductions on your taxes.

Bank statements should be kept if they contain information for your taxes.

And keep bills for big-ticket items, like a piano or couch, in case you need to make an insurance claim if they are damaged or destroyed.

■ Consider computerizing your record-keeping. Gruenberg likes to track her family's finances on Quickbook. She gets credit card statements off the Internet and puts them into a Quickbook spreadsheet, which

groups them into categories.

This helps answer the perennial question of how much is spent on food, clothing, medical expenses and so on. Seeing the amounts helps Gruenberg get a better handle on spending and make changes if necessary.

■ When you have a handle on your papers, figure out your net worth. Add up all your assets — mutual fund and brokerage accounts, bank accounts, the value of your house, and so on. Then subtract your liabilities, such as your mortgage, car loan and other debts.

"That lets you see where you're at and where you have grown," Brennan said. "It really is very helpful." Ideally, she added, your net worth will grow by at least 5 percent a year.

■ Once you get everything in order, take another step to improve your financial situation:

Sign up for automatic savings. You can do this through your 401(k) plan.

Or buy savings bonds automatically, or invest automatically in a low-cost, no-load mutual fund by having money taken out of your checking account each month. (Many mutual fund families will help you set this up; two good ones are Vanguard and T. Rowe Price.)

Automatic saving is the closest thing to a magic bullet there is in the world of personal finance. Savers usually find they never miss the invested funds, and are surprised by how quickly the account grows.

Already saving automatically? Then ratchet up the amount by \$50 or \$100 a month, or more if you can afford it.

Kathleen Lynn's column appears Wednesdays in The Record. E-mail: lynn@northjersey.com.