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## Pushing Paperless: The Pros and Cons

By ELEANOR LAISE

Jim Stokes's financial life is practically paperless. His portfolio, which includes a handful of bank accounts, at least 10 mutual-fund accounts with a half-dozen fund companies, an online brokerage account and a 401(k), would typically generate mail of Himalayan proportions. But Mr. Stokes handles it all electronically, managing investments, viewing statements and paying bills online.

"I tried to stop maintaining the huge paper trail that follows you your whole life," says Mr. Stokes, a 48-year-old X-ray technologist in Novato, Calif.



Marc Rosenthal

Spurred by an array of new electronic services and financial-services firms' promotion of paperless accounts, many consumers are considering a similar move. A number of major banks, including [Washington Mutual Inc.](#) and [Sovereign Bancorp Inc.](#), have recently begun promising to make a donation to environmental groups when customers switch to doing some business online. [Citigroup Inc.](#) offers to have a tree planted for each credit-card holder who goes paperless. And mutual-fund giant Vanguard Group Inc. last week said it would waive account fees for

customers who agree to electronic delivery of statements, fund reports and prospectuses.

Financial firms stand to save substantial sums in printing and mailing costs when customers manage accounts online. The firms say consumers also benefit because paper-free transactions are more environmentally friendly and better protected from fraud. Even the Securities and Exchange Commission recently endorsed some electronic delivery, permitting companies to provide shareholders with proxy materials online, in part because investors get the information faster.

But a paperless financial life can also raise concerns for consumers. Many financial institutions archive documents online only for a few months. Important financial information can be lost in the flood of email in consumers' inboxes. And a number of security experts say that going paperless isn't any safer, and may in fact make consumers more vulnerable to online fraudsters.

Consumers also risk neglecting their accounts when a paper statement doesn't land in their mail box each month. Rich Hurd, a 46-year-old systems analyst in Nazareth, Pa., made his department-store credit-card account paperless and set up automatic payment from his bank account. But he then got out of the habit of reviewing his statements. About a year ago, he found he'd been hit with a couple of late fees because the minimum payment on his credit card had increased, and he'd been underpaying his bill. Mr. Hurd still pays his bills online, but he insists on receiving a paper statement in the mail.

Consumers also may never receive important electronic financial documents. "Electronic delivery is less reliable because email addresses change and things get filtered into spam boxes," says Avivah Litan, an analyst at research firm Gartner Inc. Consumers should check their spam folders regularly for any legitimate email that's been caught, security experts say.

Some paperless practices have caught on. A recent survey by Harris Interactive Inc. and Marketing Workshop Inc. found that, in households with Internet connections, consumers are now paying more of their bills online than by paper check. The study was sponsored by CheckFree Corp., a major player in online bill payment.

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### QUESTION OF THE DAY



Vote: How long do you save your old bank statements?

But in other areas, consumers seem reluctant to relinquish paper completely. Just 15% of online banking customers have stopped receiving paper statements from their primary bank, according to a 2006 survey by JupiterResearch. At Vanguard, adoption of online statements has been "pretty modest," the company says.

Banks and fund companies tout the accessibility of paperless documents, but often they store statements or check images online only for a few months or a couple of years. That means important documents may not be readily available when customers need them most. The Internal Revenue Service can generally audit taxpayers for three years after they have filed their return, or six years if income has been substantially understated.

For that reason, people need to maintain records of their cost basis in stocks or bonds not only until the investment is sold but for at least three years after the return reporting the gain or loss is filed, says Anne Christensen, accounting professor at Montana State University. Likewise, bank and credit-card statements or canceled checks that might substantiate deductions like charitable donations should be kept for several years after the return claiming the tax deduction is filed. And documents showing contributions to an individual retirement account should be kept for many years, until all the money is withdrawn from that account, Ms. Christensen says.

Online storage practices vary widely. At [Charles Schwab Corp.](#), all statements, trade confirmations and tax documents are available online for 10 years. At Washington Mutual, however, statements are available online for only 13 months, while check images are available for 90 days. At Citigroup's Citi Cards unit, card holders can access just six months of statements online, although the firm says it plans to expand the archive in the near future. At many institutions, clients can request that older documents no longer archived online be mailed to them, but they may be charged a fee, often about \$5, for each document.

Going paperless sometimes means lower fees or investment minimums. At American Century Investments, investors subject to a \$12.50 semiannual account-maintenance fee can avoid the charge by agreeing to manage their accounts exclusively online, including no paper and no phone calls to customer-service representatives. And under the firm's new My Whatever Plan, investors get lower \$500 investment minimums, but they give up paper statements. Vanguard plans next month to replace several different account-related fees of \$10 each with a single \$20 fee per year. Customers have several options to avoid the fee, including going paperless or maintaining at least \$10,000 in each account.

Financial firms say greater security is an important reason to go paperless. All-electronic customers don't have to worry about paper statements getting stolen out of their mailbox, the firms say, and since they tend to check their accounts more often, they detect fraud more quickly.

But some security experts disagree with the assertion that going paperless is safer. Online fraudsters have "these big data warehouses with our information stored electronically," says Gartner's Ms. Litan, "and they're not getting that information out of people's mailboxes."

### Paper Cuts

Banks, credit-card companies and mutual-fund firms are doing everything from cutting fees to planting trees to encourage customers to go paperless. Here is what some firms are doing.

Financial Institution	How long documents are available online*	Incentives to go paperless
American Century Investments	Two to three years' worth of mutual-fund account statements.	Clients can avoid semi-annual account-maintenance fee by managing account exclusively online. Investors who view statements online can also qualify for lower fund investment minimums.
Citi Cards	Credit-card account statements available for six months. Company is planning to expand its online archive.	Citi will make a donation to plant a tree for each credit-card holder who converts to online statements.
Smith Barney	Clients can access seven years' worth of brokerage-account statements.	Smith Barney will make a contribution to an environmental organization for each client who switches to online statements.
Vanguard	Last four quarterly mutual-fund statements. Clients can search nine years' worth of transaction history.	Starting in June, some clients who receive statements, reports and prospectuses online will avoid an annual account fee.
Washington Mutual	Bank statements available for 13 months. Check images available for up to 90 days.	Washington Mutual will make a donation to the National Arbor Day Foundation for each customer who opts to receive statements online.

\*Customers can typically order documents that are no longer available online, but they may be charged a fee.

Source: WSJ research

According to a recent study by Javelin Strategy & Research, 9% of identity fraud victims who know how thieves obtained their information say it was from stolen paper mail, while 12% say it was from computer viruses, hackers, spyware or "phishing" attacks, which trick consumers into divulging key personal-financial information. While the average loss from paper mail fraud was about \$4,200, losses from phishing were about \$6,200 and from viruses, spyware and hackers more than \$7,500. Installing antivirus software could sharply lessen the risk, says Javelin President James Van Dyke. "A lot of people are simply not protecting themselves."

Paperless transactions save financial institutions lots of money. At Citigroup's Smith Barney unit, for example, client statements often run 20 to 40 pages long, and "over the course of several years

it's millions of dollars that are saved to the firm" when customers go paperless, says Barbara Glasser, managing director of marketing. At fund firm American Century, costs are cut by 85% to 90% when a customer converts from paper to electronic documents, says Dave McCalley, vice president of investor interaction.

**Write to** Eleanor Laise at [eleanor.laise@wsj.com](mailto:eleanor.laise@wsj.com)

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