Check 21

What Is It?

The Check Clearing for the 21st Century Act, popularly known as Check 21, became effective on October 28, 2004. The goal of the new law is to improve the nation's check payment system by making the check clearing process more streamlined and efficient. Previously, all checks were physically transported between banks for processing and, consequently, the clearing process could take days.

Under Check 21, banks may, but are not required to, create and transmit electronic images of checks. These electronic images are called substitute checks, which are the legal equivalent of the original which they replace. The use of substitute checks may allow checks to clear the next business day.

How Will This Impact You?

The most obvious impact is that you will lose the "float" that you had enjoyed as your checks meandered through the clearing process. Now you will need to have sufficient funds in your checking account when you write a check or risk bouncing it. According to Consumers Union, ". . . by mid-2005, consumers could be bouncing almost 7 million more checks and paying an additional $170 million in fees each month." While you may also have quicker access to checks you deposit to your account, the law does not require banks to guarantee this.

The banking industry estimates that it could save over one billion dollars annually in postage and handling costs due to Check 21 and that fraud will be reduced since fewer checks will be transported between banks.

If you have historically received your cancelled paper checks with your monthly statement, you may begin noticing substitute checks instead. Banks do not need to seek your permission before they stop returning your cancelled checks. Prior to October 28, 36% of Americans received their cancelled paper checks with their statement each month.

Did You Know . . .

The sooner that you begin saving for retirement, the less you will need to save. Contributing to your retirement accounts earlier in life allows you to benefit from the power of compounding. According to The Vanguard Group, in order to replace 75% of your pre-retirement income over a 25-year retirement, *you would need to save 12% of your income annually if you began saving at age 27 versus 32% of your income annually if you began saving at age 47*. This analysis assumes you make $75,000 per year; at greater income levels, you would need to save an even greater percentage of your income to meet your future retirement needs.

Financial Resolutions For The New Year

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9. **Review beneficiary designations**—As with your estate planning documents, *it is critical that you keep current the beneficiary designations that you have indicated on life insurance and retirement accounts*. If you wish to change your beneficiaries, contact the applicable financial services company.

10. **Assess insurance coverage**—Review your various policies (e.g., health, life, homeowner's, disability, long-term care) for applicability and adequacy. *Be especially mindful that your home is adequately insured for its full replacement cost.*

To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework. —Warren Buffett