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Feeling Out of Cash? Manage it using the 4-3-2-1 Rule!

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THE 4-3-2-1 RULE TO MANAGING INCOME

The first step is to, record down your income every month. Income refers to salary, investment dividends, business income, rental income and others. For this amount of money, you can get your net income after deducting away your CPF contribution. For example, if someone's net income is SGD 5,000, then his income allocation will be as follows, using the 4-3-2-1 budgeting rule.

40%-SGD 2,000: PERSONAL EXPENSES

Personal expenses include daily expenses like food, transport, groceries, bills and entertainment expenses. Personal expenses should ideally take up no more than 40% of your net income. If you can manage well and limit yourself to this budget, you can reward yourself with a short getaway or pamper yourself. However, you must make it a point to cut down on those unnecessary expenses.

30%-SGD 1,500: PROTECTION AND MONEY GROWTH

Protection includes several areas such as accident, basic hospital, life and income protection planning. Insurance is the most commonly known solution and it should ideally be allocated 10% of your net income. The remaining 20% should be distributed in half for money growth. Part of it goes to the midterm investment, targeting a 3-5% yearly interest while the other half put in the long-term investment to gain a yearly interest of 7% and above. Adding, as this relates to assuming calculated risks for calculated returns, its critical risk profile is factored in so the portfolio matches this accordingly.

20%-SGD 1,000: LOANS

Long-term loans such as car, housing and education loans should ideally take up 20% of your net income. One important thing to note is that a credit card loan can only be classified under personal expenses since we use the card for spending on our daily necessities most of the time. If your budget is more than this, it may not be the right time to own these assets. If you are debt- free, you could preserve this budget for investment or planning usage.

10%-SGD 500: PLANNING FUND

For singles, this budget can be used for personal planning such as a wedding fund, down payment for BTO, holiday trips, or to set aside as an emergency fund. For married couples, this can be used for children's education planning, family trips or family funding.

With that, let us delve further into using the 10% budget for the Income Protection portion. Sometimes we come across individuals that are over-committing themselves to more than what they can afford, and this results in financial distress rather than freedom. In conclusion, let me share with you how to achieve this by distributing the budget across A to F for references.

ACCIDENTAL COVER - Reimbursement of medical fees resulting from accidents and consultations with specialists. - Temporary disablement caused by accident, providing you with an income. - In the case of an unexpected death, a lump sum compensation will be given to the family.	**DISABILITY** - Whole life disability payout used for medical expenses and cover living expenses. - Secure income of temporary disability.
BASIC HOSPITAL - Private or government hospital and medical fees. - Medical fees before and after three months from hospitalisation date. - Nephrons' consultant fees and medical fees.	**EARLY ILLNESS** - If you suffer from early critical illness stages, the payout will cover the loss of income during the recovery phase. - As this condition is diagnosed earlier and with medical advancement, chances for full recovery is higher.
CRITICAL ILLNESS - If you suffer from 30 to 37 severe critical illness stages, the payout will cover the loss of income during the recovery phase. - Statistically, 70% of the pay-out is caused by cancer and heart attacks and ¼ of the population suffers from this condition.	**FAMILY PROTECTION** - Providing family income security for dependants who are relying on the sole breadwinner income which includes living expenses, liabilities and the ability to support young adolescents till the age of independence and take care of them well in the event the sole breadwinner of the family is not around.

About the Author

Dave Loh Cheng Wei is a licensed financial practitioner and an active IFPAS member.