



## 1 Emergency savings

An emergency fund helps to protect you against unforeseen expenses and loss of income. “Start building your emergency fund, which should generally about six months of living expenses or income,” says Seow. “These savings allow you to survive financial hardship and pay your bills in the short term. If there is talk of lay-offs at work, increase the amount that you put into this fund.”

A key feature of an emergency fund is that it must be accessible. “Put your emergency monies into highly liquid accounts like savings accounts or short-term fixed deposits,” says Lee. “The danger here is that you can be ‘susceptible’ to tapping into the funds for impulse spending if you are not disciplined.”

## 2 Diversify your income

Remember that your current income supports your daily expenditure and wealth accumulation. “Everyone, whether an employee or self employed, should proactively look for ways to reduce his dependence on his day job. Start building passive income streams. Reorganise your financial life so that you do not solely rely on your monthly salary or pension,” says Lee. Building sources of passive income also reduces your financial burden if you lose your job.

To generate passive income, start by building your financial knowledge and invest in financial vehicles. “Boost your income by investing in high-yield stocks, unit trust funds or real estate, or a combination of these assets,” says Lee. “Patience and consistency is required to execute an investing strategy. If you do not have the time and aptitude to do so, hire a financial planner to help you.”

by Celine Tan

**L**ife is full of uncertainties. Worried about being unable to generate an income if something were to happen to you? The concern is that the bills don't stop arriving even then. “With income protection, there is income for you and your family to pay ongoing expenses, in the event of your premature death, illness, disablement or lay-off,” says Lawrence Seow, head of financial planning for VKA Wealth Planners Sdn Bhd. “You will also feel more secure and don't have to worry about funds.”

Sean Lee, CEO of Oscar Wealth Advisory Sdn Bhd, agrees that pre-planning to protect your income is vital. “In case of serious illnesses, your income-earning ability will be affected for a long time, perhaps even a lifetime. Besides the basic necessities of living, there may be medical expenses that you need to fund.”

Good financial planning includes preparing for the unexpected. The best part about protecting your income against the risk of unemployment, accidents or sickness is that you get to enjoy the amount accumulated in the event you don't face those situations at the end of the day.

Here are eight ways to protect your income:

### 3 Disability income insurance

“When you are unable to work because of sickness or injury, disability-income insurance provides you with a partial replacement of your pre-disability earnings,” says Seow. “This is offered as an additional rider that you can attach to your existing life insurance policy. For example, you can insure RM36,000 per annum in the event that you cannot work due to a disability. If this does occur, you will receive RM36,000 every year until the rider expires.”

### 4 Critical illnesses insurance

It is not uncommon to see headlines on increasing illnesses around the world. “Critical illnesses insurance is important as a severe medical condition can cost a bomb and wipe out your savings and assets,” says Lee. Says Seow, critical illness cover pays the insured a lump sum when he is diagnosed with any of the stated diseases. “This cover can support additional medical costs that the insured will need, for example, when afflicted with stroke, cancer or kidney failure. This insurance provides for loss of income when you are ill.”

### 5 Total permanent disability cover

A sudden illness or accident can render one permanently disabled. “Total and permanent disability usually means the insured suffers from continuous disability and is unable to work for at least six months,” says Seow. Except for the circumstances explained in the total and permanent disability exclusions, the insured is eligible to receive a lump sum amount if he is totally and permanently disabled, he adds. “Do note that most insurance companies in Malaysia do not pay benefits on



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SEOW: Medical costs will double in 12 years or less... can your investments and incomes grow that quickly and consistently?

partial disability.”

The coverage helps offset part of your medical bills while you face the challenge of being permanently disabled and may need long-term support and care for the rest of your life. “The insured can use the lump sum benefit to settle debts so that family members do not have to deal with this obligation and to make life as comfortable as possible for everyone,” says Lee.

### 6 Personal accident policy

Personal accident plan is an affordable supplement to life insurance. “Personal accident insurance is essential because the policy gives the insured cover for a variety of accidental injuries. Some policies can give you cash benefits if you are hospitalised or unable to work for a period of time, or both,” says Lee.

The compensation from a personal accident policy helps to cover living expenses due to your accidental injury. It is important to ensure that your personal accident plan comes with weekly indemnity benefits (income replacement as a result of short-term absence from work), accidental death and dismemberment benefit and medical reimbursement. “If you sustain

temporary total disability due to an accident and are unable to perform your normal work duties, you will receive an amount every week for the period of time as stated in your policy. This is the weekly indemnity benefit and your condition must be substantiated by a medical specialist,” says Seow. For instance, if the insured breaks his leg in an accident and has to stay at home for two months; he will receive his weekly indemnity cover for two months.

Accidental death and dismemberment benefit provides a lump sum if the insured survives an accident but suffers a total and permanent disability, says Lee. If the insured passes away due to the accident, the amount received is net of the amount that has already been paid for the accidental dismemberment.

Personal accident insurance can be extended to cover medical expenses incurred for the treatment of an accident that is covered by the policy. “With medical reimbursement, the insured is able to claim the medical and surgical expenses, whether it is outpatient or inpatient treatment, for any injuries caused by an accident,” says Lee. “This certainly reduces your out-of-pocket expenses and the need to dig into your emergency funds.”

### 7 Life insurance

Life cover or death benefit can provide immediate cash fund for your loved ones in the event of your death. “Factor in your personal situation, present debts and future liabilities and you will be able to gauge how much life coverage your family would need,” says Seow. “For example, provide RM50,000 every year for your family, RM25,000 for final expenses and RM15,000 to pay for probate and administration. Assuming an inflation-adjusted

return of 3.85% a year and 45 years of need [years that your family is to be provided for]. This means that you need about RM1.3 million in life insurance coverage now.”

You can also look at term insurance, whole life insurance or an investment-linked policy.

## 8 Medical cards

Seeking treatment and care at private hospitals can exhaust savings. “Medical costs are increasing at an alarming rate of about 6% a year,” says Seow. “Medical costs will double in 12 years or less. The question is, can your investments and incomes grow that quickly and consistently? The answer is no.”

A medical card gives you additional cover over and above your income protection plan. The card generally covers room and board, ICU stay, surgical fees, aesthetic fees, medical treatments, and post- and pre-hospitalisation treatments. Some cards also cover claims for medical treatment received outside the country but only for the cost that you would incur to seek the same treatment locally. “Upon hospital admission, the medical card will pay based on the benefits provided [usually hospital admissions and bills]. You do not need to use your cash, thus your monthly cash flow will not be interrupted,” says Seow. “If your hospital stay is longer than a week, the cost starts to escalate to thousands of ringgit. With a medical card, you can reduce this financial burden.”

Some may consider the premiums paid for these medical cards as being “burnt” if the card is not used. However, it only takes one or two hospital admissions to use all the premiums that you have paid over the years. “Most medical cards impose a yearly limit on the number of days for room and board, as well as annual limits [on cost incurred], adds Seow. ■

## NO SAVINGS, NO INSURANCE AND CAN'T WORK

**DON'T have emergency savings and insurance and suddenly find yourself unable to work due to a serious illness or injury? Not to worry, there are avenues to explore, especially if you are a salaried employee.**

### DOES YOUR EMPLOYER HAVE MEDICAL BENEFITS OR GROUP INSURANCE?

**Most companies allocate a budget for employees' medical expenses. “Your employer will reimburse your medical bills. Check if there is an annual limit on the amount that you can claim,” says Sean Lee, CEO of Oscar Wealth Advisory Sdn Bhd. “If your employer is able to cover the necessary expenses, either through reimbursement or its group insurance plan, always use that coverage first. Use your own insurance coverage only when the amount provided by your employer is insufficient. Most insurance companies will deduct your lifetime benefits (under the same policy) once you make a claim.”**

**Lee points to the Employment Act 1955. An employee is entitled to at least 14 days' sick leave if he works for less than two years in the company, at least 18 days' sick leave if it is more than two years**

**but less than five years, and at least 22 days' sick leave if it is more than five years. “During this period of sick leave, you are still entitled to your normal pay cheque.” In periods during which you cannot work for a few months, it is best to negotiate with your employers as they can terminate your employment if you have exhausted the annual sick leave days, he adds.**

### THE EMPLOYMENT INJURY INSURANCE AND INVALIDITY PENSION SCHEMES

**It is important to note that as long as you are an employee who contributes to the Social Security Organisation (Socso), you are entitled to get protection if you are involved in accidents arising out of and in the course of your employment, commuting (to and from work) or inflicted with an occupational diseases. This scheme is known as the Employment Injury Insurance Scheme. Socso also offers an Invalidity Pension Scheme, which provides 24-hour coverage to contributing employees, against invalidity or death due to any cause not connected with employment, before the age of 55 years.**

**Here, invalidity refers**

**to a serious disease or disablement of a permanent nature that is either incurable or not likely to be cured, as a result of which an employee is unable to earn at least a third of what a normally able person could earn. Visit [www.perkeso.gov.my](http://www.perkeso.gov.my) for more details.**

### WITHDRAW FROM YOUR EPF

**Under Incapitation withdrawal, you can withdraw your entire savings from the Employee Provident Funds (EPF) if you are certified by a specialist to be incapacitated, physically or mentally, and unable to work. Another option is to withdraw money from Account 2 for the treatment of 36 critical illnesses.**

**“Your EPF should only be the last avenue if you have used up all the other income replacement options,” says Lawrence Seow, head of financial planning at VKA Wealth Planners Sdn Bhd. “This is because the EPF gives decent and secured returns and should ideally be used to finance your retirement.” The large sum of money withdrawn can also be difficult to manage as you need to preserve the capital while paying periodic expenses, he adds. ■**