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Most employees rely solely on employment income to fund living expenditure. Notwithstanding the personal financial challenges most face whilst working, it is also important to consider how current living expenditure would be funded if employment were to end, either voluntary or statutory. This brings into focus, the aspect of **Income Replacement**, as part of an ongoing financial planning process. Income replacement is an area that mostly gets attention towards retirement e.g. the income replacement ratio, yet income replacement should also consider all possibilities on an ongoing basis. In essence, thought should also be given on how income can be replaced after retirement or should employment have to come to an end before retirement, in cases such as retrenchment and disability, however the focus will be on retirement.

Most employees contribute and are members of retirement funds, and as such in this context that the Income Replacement Ratio is defined as a measure of how much retirement benefits can replace current income. This may be income derived from the retirement fund itself, or from an annuity purchased from an insurer. At a time where most retirement funds are provident funds, the income would be income generated from investment made from the benefit paid out, assuming that the investment is made. The generally accepted income replacement ratio level is 75%, and this is based on the fact that, even though reduced certain living expenses will still need to be catered for. For example, if earning E5, 000 monthly, this would mean that, E5000 x 75% = E3, 750 would have to be derived from the retirement benefit.

It is a fact that for most, replacing income by 75% will be a challenge. This may be due to the fact that benefits may not be sufficient owing to among other reasons; lack of benefit preservation in case of job changes, market conditions, small contribution amounts and costs of purchasing annuities. Planning early for retirement helps one identify any shortfalls and accordingly try and improve positions as they work towards retirement. Ordinarily this could mean investing more and most probably identifying income generating activities. Also, it will help to constantly track value retirement benefits as issued annually, as this may change as a result of market fluctuations, and planning ahead by working out possible living expenses post-employment.

When working towards achieving the ideal income replacement ratio, a plan has to be in place and one that will have to be constantly reviewed as circumstances change. Income replacement is not something that can be left to chance but practical planning and application is required.

Key Market Indicators

Inflation[1]	1.6%
Interest Rate (Bank Rate)[1]	6.75%
Prime Rate[2]	10.25%

1. Source: Central Bank of Eswatini
2. Source: FNB, Nedbank, Standard Bank, Swazi Bank, Swaziland Building Society

Glossary

1. Inflation – the general increase in prices and the fall in purchasing value of money.
2. Interest Rate – amount paid by borrowers for use of money borrowed from lenders.
3. Prime Rate – the rate used as a benchmark by banks for lending rates.

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