MAY 2019

For a long time and probably still is the case today, the understanding has always been that the moment we get employed, it shall remain so up until we retire. Yes, this is good notwithstanding the fact that planning for retirement has not been adequate for many employees. In current times, such understanding cannot always hold as things have changed. With persistent economic challenges and financial constraints, many company's go through changes, as being witnessed presently where work structures are redesigned thus leading to retrenchments. Retrenchment is not often talked about or considered when looking at personal financial planning. While planning for the end, such as retirement is critical, it is equally important to think about any eventuality in between. Trends are showing that internationally, regionally and locally a number of organisations are going through changes that are resulting in retrenchments. While retrenchment is not an event to be wished for, planning and continuously thinking about how to mitigate it is essential.

Retrenchment can take its toll emotionally and physically and most importantly financially. From a personal finance point of view, for some, if fortunate may mean being engaged on new terms at either lesser or higher incomes within the same company or other companies. For some unfortunately this means loss of employment with no immediate future prospects of employment. In most cases the negatives outweigh the positives, particularly in a case where income is permanently lost or reduced, as such would impact household expenditure, financial commitment such as savings, investment, policies and most importantly the biggest threat debt.

How then do you plan or think about retrenchment? The answer to this question will differ from one person to the next, however generally the following points below may be considered.

Company Updates

Take interest in company updates, as often intentions to make organizational changes are communicated in advance. Most public institutions publish annual reports that are available to the public, such as listed companies on the Eswatini Stock Exchange, parastatals, subsidiaries in Eswatini of companies listed on the Johannesburg Stock Exchange. Also appreciating the industry your company operates in could help, as trends would normally give an indication of how the sector is performing and what companies are doing. This may not give entire picture, but at least being aware and planning accordingly should the signs be clear can make a big difference.

Household Expenditure

It is encouraged that a manageable lifestyle is maintained at any point, as this is where many have challenges, after a retrenchment. A salary forms a big part of income and the standard is to have the equivalent of six months' salary built in savings or invested, to help meet emergency expenditure and importantly provide a cushion during a retrenchment. This sounds a tall order for many, but to get into the habit, start by building up to save the equivalent of one month's salary. For example, this means that if earning E1,000, have E1,000 in savings or invested, which can be built up in smaller amounts, then target the next E1,000 until the six months equivalent. Such amount can be invested in interest bearing investments where they will generate a decent interest and also be accessible when called upon.

Financial Commitments

Common commitments would include education policies, life policies, investments, general savings. It is important to be appreciative of terms of policies or investments made in regard to them being able to continue even without contribution should you be retrenched and if not, what becomes of what would have been accumulated to the date of retrenchment. Is it forfeited or does it continue to grow from what had would have been accumulated?

Investments

In a case of a retrenchment, investments made can help stabilizing situation before having to use pension or provident fund benefits. Such investments would have been a function of building up, at least the equivalent of six months' salary. If fortunate to be employed again it is encouraged that benefits are preserved or transferred to new employer. This is particularly important for those between age 50 and 55, because building up again may take time, yet age 60 which is the normal retirement age is not very far. There may be arguments for need to use funds to settle certain obligations, this should be done after proper planning and consideration.

Debt

Debt is a big threat to financial independence and as such if heavily exposed in the event of a retrenchment, because it is unplanned, there will be challenges financially. At an instance what this says whatever benefits that would be paid would go towards clearing debt, leaving less or no amount to be enjoyed as a benefit. It is therefore encouraged that when taking debt, try and settle as soon as practically possible, because so long as the debt is outstanding, regardless of the circumstance, it remains outstanding.

While we may not know what the future holds and ideally would want to end employment at retirement, we cannot ignore what is happening around us, to a point of surprise when something like retrenchment were to happen. For all intents, it helps to ensure that personal financial affairs are in order, and can withstand any event whether it is a retrenchment, or retirement at the end of working life.

Key Market Indicators

Inflation[1]	5.2%
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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