

'Wealthy' contractors stash away contracting money for retirement and savings

Dave Chaplin, CEO, ContractorCalculator:

Can contracting make you rich? Well, that rather depends on what you define as 'rich'. When they think about how rich they are, most contractors tend to focus on how much money they are earning from their contracting career – usually by looking at their gross pay.

But there is another, and perhaps more insightful, way to look at the whole wealth and earnings equation. Using it, your wealth is measured by how long you can survive on your 'passive assets' if you lost your regular contracting income. Passive assets are things like savings, investments, pensions for retirement, property and the like – assets that generate you income without you having to get out of bed in the morning.

This brings a new perspective to your money and your wealth, doesn't it? You could be earning £100k per year from contracting, but if your pay stopped tomorrow you may only be weeks away from becoming destitute. So, you might think yourself rich, and be surrounded by all the trappings of wealth; but actually, you are no better off than someone who, for example cleans windows. Actually, chances are the window cleaner could probably survive longer than most contractors who lost their job.

Being truly wealthy means being financially secure, and that means all the bills get paid by the money from passive assets like savings. A general rule of thumb is to have savings of up to 20 times what you need to live on during a year so that a 5% return on that pot each year gives you what you need.


Marketing and media pressures imply that our status in society is judged by our material wealth. Many contractors find themselves paying out not-yet-earned contracting money using credit simply to buy status symbols. Ultimately, it means those contractors have to stay in work for longer to pay for the credit, and to save up enough for retirement.

And where has all the 'cheap money' of recent years taken us? On a one-way ticket to credit crunch city! So bear this in mind when you take out the next car loan, or when planning to pay for a holiday using your bank's or credit card company's money.

If you are currently in a contract, chances are you are already earning a decent amount of money. And rather than splash out and waste, yes waste, all your extra contracting money on something you don't really need, why not do your savings and your retirement fund a favour by putting money aside?

It's quite simple – the more you spend the less you save. Even with the low interest rates currently on offer, contractors' money is better off being saved or invested than spent. And that's especially true if you're looking at long-term savings and investments that may provide a reasonable passive income if you need it and, in time, could help you enjoy a decent retirement income.

So, as it's that time of year when people make life-changing decisions, why not resolve to go and see your Independent Financial Adviser? It could lead to you being a truly 'wealthy' contractor – with sufficient savings to give you a passive income if you need it; the security to know you'll have enough money in retirement; and, if you act now, possibly even the option to go for an early retirement!

 <p>Dave Chaplin CEO ContractorCalculator</p>	<p>View all our commentators ▶</p>	<p>Dave Chaplin is a former IT contractor in the City of London, and is founder and CEO of ContractorCalculator, and author of the Contractors' Handbook.</p>
<p><i>Market Commentator</i> ▶</p>		<p>Started in 1999, ContractorCalculator (this site) is the leading independent website for the UK contracting industry – most of whom are highly skilled knowledge workers. Read Full Profile...</p>


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