



Financial Preparedness Series

## Still Time, Still Potential: Helping Your 40-Something Members Stay on Track

Welcome to the final article in our Financial Preparedness series. As the launch of The Pensions Dashboards gets ever closer, in this article we look at what this means for your members in the 40 to 50 age group and discuss how you can best support them now a new single view of their pension is imminent.

### Pensions Dashboard loading...

While the introduction of the dashboard (or even dashboards) is an important step in the right direction, we believe that pension scheme members would benefit from additional guidance, especially given the sweeping changes that have occurred in the pensions industry over the past decade or so. The more we understand the potential reaction from members to the data provided by the dashboard, the better prepared we will be to support members at every stage in making the right decisions for their retirement.

### But when is a good time to start?

For your members in their 40s, it may seem to them a little too soon to be thinking about retirement. They probably already have enough expenses to worry about, such as a mortgage or rent, student debt, car loans, bills, childcare and so on. And, if there's money left over after all those outgoings, it's only natural that it goes towards more pleasurable pursuits in the here-and-now, such as travelling, cultural activities or sports.

Surely building a retirement nest egg can wait for another year or two?

As tempting—and understandable—as that line of thinking may be, the reality is that the only better time to start planning for retirement than in your forties, was in your thirties or twenties. And this is the reality you need to bring home to this member demographic.

For a start, it is, statistically speaking, the easiest time to save. In the UK, the highest average disposable income per household is in the 35-44 age group. The second highest is 45-54.

Another good reason is tax. Remind them that, unlike many other investment vehicles, when the savings in a pension scheme grow, they are not taxed—at least not until they retire.

The third reason is demographic: life expectancy in the UK, like most places, is going up. This is part of a centuries-long trend, albeit interrupted with brief blips from wars, epidemics and pandemics. As such,



while there is no guarantee that this trend will persist, especially given some of the daunting challenges human societies are likely to face in the coming decades, the odds are that it will. If so, it means the average duration of retirement in 2050 is likely to be longer than today.

## The upshot?

The key message for your members in their forties and younger is that they will most likely need to save more over a longer period of time to ensure that they are ready for retirement when the time finally comes.

As we've discussed in a previous article, once members reach their early-to-mid 50s, it is probably already too late to make a significant difference to the ultimate size of their pension pot. The good news is that, for your members in their 40s, including even late 40s, there is still time

## It may be on their side, but times have changed

Due to the huge changes that have taken place in the way pensions work as well as the way we ourselves work, retirement is a very different prospect today. Most people today have multiple employers over the course of their career. According to estimates by the Department for Work and Pensions (DWP), the average person changes employers approximately 11 times in their lifetime. As a result, pension schemes are distributed over multiple workplace schemes, making it much more difficult to keep track of how much anyone is saving, hence the dashboard.

Something else that has changed dramatically is the type of pensions we all receive. In the UK, people are increasingly members of Defined Contribution schemes. This differs starkly from the more traditional Defined Benefit scheme.

## The consequences of change

These days, members of Defined Contribution schemes who have been on a low-to-moderate income for most of their career, will find that the minimum contribution employers are obliged to pay— so-called 'auto-enrolment'—will not be enough to see them through retirement, especially if inflation remains relatively high in the years to come.

We are already beginning to see the consequences. In a recent survey Standard Life found that close to one in ten retirees aged over 55 have returned to work, with a further 6% considering doing so. Money issues were a key factor in many of these decisions, with roughly a third saying increased living costs were the main driver for returning to work. A quarter said they had found their pension was not enough to cover day-to-day living expenses.

The lesson is clear: the sooner your members can start boosting their pension contributions, the better chance they have of enjoying a comfortable, sustainable retirement.



## Increase contributions sooner rather than later

Share these uncomfortable truths with members early. Members should be made aware of the benefits, or otherwise of increasing their contributions, if they can afford to. Some employers will have provisions to increase the sum they pay in and may be willing to match contributions up to a certain level.

## Prompt younger members to take accountability now

The Pensions and Lifetime Savings Association (PLSA) Retirement Living Standards suggest that a single person needs between £13,400 and £43,900 annually for retirement, depending on the desired lifestyle (minimum, moderate, or comfortable). For a two-person household, these figures roughly double, ranging from £21,600 to £60,600. These figures are estimates and will vary based on individual circumstances, location, and spending habits.

If this is the target, members should be educated to work back and to assess and seek advice on the complementary factor to reach these goals, including reviewing the contributions needed, investment returns, and also potential date of retirement.

(Source: [Pensions UK - Retirement Living Standards](#))

## It's never too early to seek advice

In line with this series of articles, we truly believe there is an educational gap that needs to be addressed. The industry has started to make progress on this, but more can be done and quickly. There is a wealth of experience out there and the key is to ensure that people can tap into the solutions in a clear, transparent and trustworthy way.

**If you would like to discuss any of these matters further, please get in touch with your usual contact at Cartwright.**

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