Rishi Sunak hints he may drop the triple lock on state pensions this year despite the government promise to keep it until at least 2024

**This briefing sets out the background to State Pension increases and why we need to at least keep the ‘triple lock’ to protect future generations as well as current pensioners**

**What is the Triple lock?**

**Since 2012:-**

The government changed the way state pensions are increased every year.

After decades of lobbying governments, National Average Earnings was included in the calculation of state pension increases.

 However, the government also changed the RPI (Retail Prices Index) for the CPI (Consumer Prices Index) from 2012

It retained a minimum increase of 2.5%

Calculating increase on the best of all three became known as - the ‘triple lock’

**The triple lock**

The so called ‘triple lock’ means the increase in state pension is the higher of:-

* National Average Earnings
* Cost of living (CPI)
* 2.5%

This formula is applied to the old basic state pension that are in payment and the new state pension post April 2016 – not to any other state or workplace pension.

**Background How did we get here?**

**1974** long term benefits including the state pension went up by the higher of prices or earnings. The measure on prices was the Retail Prices Index and the measure of earnings was average earnings.

The value of the state pension measured against long term earnings increased from around 17% in 1971 to 26% by 1980.

**1980** the earnings link was removed and state pension only went up in line with prices

The value of the state pension measured against long term earnings decreased from around 26% in 1980 to 16% by 2003.

**2003** minimum increase of 2.5% was introduced so state pension was increased by the higher of RPI or 2.5%.

The relative decline halted- however RPI increases usually outstripped 2.5% during this period so by 2012 only marginal increase.to around 17% of earnings

**2011** the earnings link was restored with effect from 2012 with cross party support and the triple lock started. However, the RPI was replaced by the Consumer Prices Index (CPI) to measure price increases that over time results in around average 1% a year lower inflation figure.

With pay restraint and low inflation, the 2.5% underpin has been used 3 times since 2012. National Average Earnings have been used three times. The relative value of what is now the basic state pension is around 19%

**2016** the new state pension came in also increasing in line with the triple lock. The new state pension has a relative value of around 24% of long-term national earnings. Many workers who have retired or are near State Pension Age will not get the full new state pension.

The relative value of the basic state pension is now around 19%. Those who have reached state pension age providing their partner is also above state pension age can if eligible claim pension credit that will boost their state pension to around 23 % .

**State Pension increase RPI v CPI**

There are two main official measures of price inflation.

The Consumer Prices Index (CPI) that does not include housing costs

 The Retail Prices Index (RPI) that does include housing costs

The CPI and the RPI are calculated in different ways. The result is that CPI is nearly always significantly lower than RPI

Neither measure shows the real cost for pensioners See the comparison in the attached tables

**Round up on where we are.**

The relative value of the state pension compares badly in terms of relative value with the state pensions of most countries in Europe.

As you will see below although the triple lock has assisted the state pension to maintain its relative value and with the recent average earnings start to increase the relative value. For those who now get the full flat rate pension since 2016 or eligible for Pension Credit, the relative value is no higher than I it was 40 years ago.

**You will also note that if the original ‘double lock’ had been retained in 2011 ie higher of Retail Prices Index or 2.5%, state pension would now be marginally higher. So compared with the previous method pensioners are currently marginally worse off and the triple lock will have saved money based on real figures to date.**

**This may change for a year or two if pay increases continue to rebound after the pandemic and inflation continues to rise. Most recent figures.**

Latest Average Weekly Earnings (total pay – three-month average): 5.6% in May. And this may rise. Inflation is also rising.

The table below shows how the triple lock compares with the previous method if it had not been changed.

In the final column it shows in red years when the triple lock increase was lower

and in black years the increase was better or the same under the triple lock

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | CPI | RPI | Actual Increase in BSP in April |  | LowerHigher |
| September 2011 | 5.2% | 5.6% | April 2012 | **5.2%** | 0.4% |
| September 2012 | 2.7% | 3.2% | April 2013 | **2.7%** | 0.5% |
| September 2013 | 2.2% | 2.6% | April 2014 | **2.5%** | 0.1% |
| September 2014 | 1.2% | 2.3% | April 2015 | **2.5%** | same |
| September 2015 | 0.1% | 1.1% | April 2016 | **2.9% increase in July 2015** | 0.4% |
| September 2016 | 1% | 2% | April 2017 | **2.5%** | same |
| September 2017 | 3% | 3.9% | April 2018 | **3%** | 0.9% |
| September 2018 | 2.4% | 3.3% | April 2019 | **2.6% increase in average earnings** | 0.7% |
| September 2019 | 1.7% | 2.4% | April 2020 | **3.9% average earnings at July 2019** | 1.5% |
| September 2020 | 0.5% | 1.1% | April 2021 | **2.5%** | same |
|  |  |  |  |  |  |

**State Pension increase - the attack on the triple lock**

The increase in 2022 if not changed will mean that for the second time since 2012 the link to average earnings will deliver a significant increase to the state pension.

This will lead to more calls to cut it back.

Many Politicians and ‘think tanks’ have attacked the triple lock claiming it is too expensive and unfair to younger generations.

The latest being the House of Lords Select Committee on Intergenerational Unfairness HL Paper 329 published 25 April 2019.

**However, UNISON strongly disagrees**

The triple lock is not only fair to younger generations but essential especially for those that will have to rely on the State Pension for a high proportion of their retirement income when they reach retirement.

The removal of the triple lock would mean the relative value of the State Pension would start to decline again as it did between 1980 and 2003 when it was only linked to price inflation.

The younger generations need the triple lock to survive for them, so they have a decent state pension when they finally reach state pension age.

Continuing declines in the coverage in Defined Benefit workplace pensions in favour of Defined Contributions schemes means an increasing proportion of the current workforce are facing an uncertain future and likely to have significantly lower income in retirement.

Recent work doing examples of likely pension outcomes for care works has shown the minimum employer contributions to the auto enrolment arrangement will produce inadequate income and members will have to rely increasingly on the State pension to survive so any reduction in it projected relative value could have dire results for future pension poverty.

**Cutting the relative value of the state pension is a false economy and far from reducing the impact on taxpayers it is likely to increase it for the future.**

**The politics**

At the 2010 election the Conservatives pledged to remove the 2.5% minimum increase. The DUP insisted as part of the deal to keep the Conservatives in power that it was retained.

At the 2019 election the Conservatives gave a pledge the triple lock would be retained during this parliament.

Pressure is growing to reduce future state pension increases with the Covid crisis being used as an excuse.

Reports are that the chancellor is in favour of cutting the triple lock although for, what it is worth, the prime minister may still be reluctant.

**Glyn Jenkins**

**August 2020 (updated table July 2021)**