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 introduced the triple lock from 2012.

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

However, the government also changed the inflation statistic used from RPI (Retail Prices Index) to 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 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 there had only been a 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 which on average has been around 1% a year lower than RPI.

With pay restraint and low inflation, the 2.5% underpin has been used four times since 2012. National Average Earnings have been used four 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%.

<u>Operation of the triple lock since 2012</u>

Year	Increase in State Pension (from April) (%)	Triple lock		
		CPI (previous September)	Average earnings growth (previous May-July)	Minimum increase
2012	5.2	5.2	2.8	2.5
2013	2.5	2.2	1.6	2.5
2014	2.7	2.7	1.2	2.5
2015	2.5	1.2	0.6	2.5
2016	2.9	-0.1	2.9	2.5
2017	2.5	1.0	2.4	2.5
2018	3.0	3.0	2.2	2.5
2019	2.6	2.4	2.6	2.5
2020	3.9	1.7	3.9	2.5
2021	2.5	0.5	-0.9	2.5
2022	3.1*	3.1	8.4	2.5
2023	10.1	10.1	5.4	2.5
2024	8.5	6.7	8.5	2.5

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, the triple lock has assisted the state pension to maintain its relative value, and with the recent stagnation of average earnings start to increase its relative value. However, for those who now get the full flat rate pension since 2016 or are eligible for Pension Credit, the relative value is no higher than it was 40 years ago.

You will also note that if the original 'double lock' had been retained in 2011 (ie the higher of Retail Prices Index or 2.5%), the 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 the government money.

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

For comparison: How the 'double lock' would have increased the state pension since 2012

		'Double lock' pre-2012			
Year	Increase in State Pension (from April) (%)	RPI (previous September)	Minimum increase	Increase under double lock	Double lock compared to actual SP increase
2012	5.2	5.6	2.5	5.6	Higher 0.4%
2013	2.5	2.6	2.5	2.6	Higher 0.1%
2014	2.7	3.2	2.5	3.2	Higher 0.5%
2015	2.5	2.3	2.5	2.5	Same
2016	2.9	1.1	2.5	2.5	Lower 0.4%
2017	2.5	2.0	2.5	2.5	Same
2018	3.0	3.9	2.5	3.9	Higher 0.9%
2019	2.6	3.3	2.5	3.3	Higher 0.7%
2020	3.9	2.4	2.5	2.5	Lower 1.4%
2021	2.5	1.1	2.5	2.5	Same
2022	3.1*	4.9	2.5	4.9	Higher 1.8%
2023	10.1	12.6	2.5	12.6	Higher 2.5%
2024	8.5	8.9	2.5	8.9	Higher 0.4%

State Pension increase - the attack on the triple lock

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

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

The minimum employer contributions under auto enrolment arrangements (3%) will produce inadequate retirement income and members will have to rely increasingly on the state pension to survive. Any reduction in its projected relative value could have dire results for future pensioner 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 2017 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.

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