# Briefing on the triple lock

July 2017

**Key points**

- The triple lock provides annual increases to the basic State Pension and the new State Pension in line with the highest of rises in earnings, prices or 2.5%.

- By law the basic State Pension and new State Pension have to be increased at least in line with average earnings, so given a period of low earnings inflation, the triple lock has made an important difference to the value of the State Pension.

- However, total average annual payments of State Pension still only add up to about £7,000 a year - a modest amount equivalent to only about half the current minimum living wage. Overall spending on the State Pension in the UK is low compared to that in many other similar countries. Abandoning the triple lock would mean, in effect, abandoning our aspirations for a better standard of living for pensioners in the future.

- Age UK believes there is a strong case for retaining the triple lock at present because:

    - It has helped increase the real value of the basic State Pension after many years when it fell because it was only uprated in line with prices.
    - It helps protect State Pension income over the course of retirement whereas others parts of income, such as private pensions and savings income, often lose value in real terms over time.
    - The State Pension constitutes all or most of the retirement income of pensioners on lower incomes - this support needs to be maintained, especially at a time when the latest figures show a small rise in pensioner poverty.
    - If the triple lock is abandoned there would be a big impact on future pensioners, particularly those with low life time earnings and women, for whom the State Pension will continue to be very important.

**What is the triple lock?**

The triple lock is the uprating formula that increases the new State Pension (which started in April 2016) and the basic State Pension (under the pre-2016 system) in line with whichever is the highest out of the annual rise in prices (as measured by the Consumer Prices Index - CPI), average earnings, or 2.5%.

The triple lock was introduced by the Coalition Government which came to power in 2010. However, the State Pension was uprated by the Retail Prices Index (RPI) in April 2011 so April 2012 was the first year the triple lock was used. Before the 2017 general election, the Conservative manifesto made a commitment to maintain the triple lock until 2020 and then replace it with a double lock based on the higher of prices or earnings. However, as the Conservative Government does not have an overall Parliamentary majority they have made a 'Confidence and Supply Agreement' with the Northern Ireland Democratic Unionist Party (DUP) which includes the statement that the parties have agreed that there 'will be no change to the pensions triple lock.' The Pensions Minister, Guy Opperman, has also said 'We are committed to the triple lock for the remainder of this Parliament'.[1]

Some points about uprating and the triple lock:

- People who reached State Pension age before 6 April 2016 receive their State Pension under the old system. For them, only the basic State Pension, up to £122.30 a week (£6,360 a year) from April 2017, is uprated by the triple lock.
- Other parts of the pre-2016 State Pension such as the additional pension (SERPS/S2P) are uprated in line with rises in the CPI.
- The full rate of the new State Pension is £159.55 from April 2017 (£8,297 a year) and this is uprated by the triple lock. Most people reaching State Pension age now receive less than this, but some receive more because they had already built up a higher State Pension under the old system. Any amount in excess of £159.55 is increased in line with the CPI.
- The triple lock is a Government commitment but it is not set out in legislation. The legal requirement is that the basic State Pension and new State Pension must be uprated at least in line with average earnings. Other elements of the State Pension are linked to price rises.
- Different uprating mechanisms apply to other social security benefits. For example, by law, the standard rate of Pension Credit guarantee is uprated in line with average earnings while the savings credit element of Pension Credit does not have to be increased. Some other benefits like Attendance

1 http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2017-06-21/65/

Allowance are increased in line with the CPI, while the levels of some working age benefits have been restricted or frozen for some time.

**State pensions uprating – background**[2]

A requirement for an annual State Pension increase was first set out in legislation in 1973. Before then it was increased at irregular intervals. The legislation sets out the formula for a minimum increase but the government of the day can choose to provide higher increases. Between 1975 and 1979 the pension had to be increased by the higher of earnings or price inflation, as measured by the RPI, but from 1980 the pension had to rise only in line with prices. The 2007 Pensions Act changed the law again, introducing a link to earnings for the basic State Pension which was brought into law from 2011, but, as explained above, the RPI was used instead in 2011. Since 2012 the triple lock has been used.

Another important change is that from 2011 onwards the Government moved from using the RPI to the (generally lower) CPI as the main price inflation measure for purposes such as uprating benefits and pensions.

**The State Pension as a proportion of average earnings**

At its peak in 1979 the basic State Pension was worth around 26% of average (mean) full-time earnings. Once the earnings link was removed its value fell to around 16% in the period 2000 to 2008. Since then it has risen to about 18.5% in 2016 while the full new State Pension represents around 24% of average full-time earnings. [3]

In reality, under the old system, while some receive less than the level of the full basic pension most receive more and, in November 2016, average State Pension payments were £134.53 a week[4] (£6,996) - around a fifth of average earnings and about a half of annual earnings for someone receive the Minimum Living wage of £7.50 a week.). This average amount includes the relatively small number of people who receive the new State Pension to date. Under the new system, during what will be a lengthy transition period, some people will receive more than the full amount and others less. In November 2016 those receiving the new State Pension received on average £146.72 (just under 23% of average earnings).[5]

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2 http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7812
3 http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7812
4 Based on mean full time earnings as above and a 35 hour week paid at £7.50 an hour
5 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/614225/dwp-quarterly-stats-summary-may-2017.pdf

**What difference has the triple lock made to the level of the basic State Pension?**

The Government has said that between April 2010 and April 2016 the basic State Pension was £570 higher in 2016-17 than if it had been uprated by earnings since April 2011.[6] For people on a low income this is an important boost to income and helps make up for years when the relative value of the basic State Pension fell.

However, even if the triple lock continues, it is unlikely this kind of increase over and above earnings inflation will be maintained. The first years of the triple lock were post-recession years when earnings growth was very weak, so CPI uprating or the 2.5% underpin were used. With rises in average earnings the picture has changed somewhat. The April 2016 rise was linked to average earnings of 2.9% and while the 2017 increase was linked to the 2.5% underpin, this is only just above average earnings of 2.4%. House of Commons Library calculations based on OBR projections show that in the next few year's average earnings are likely to be the highest element of the triple lock, or close to this, so the triple lock will have only a very limited impact as compared to an earnings link.[7] However, over time, it is likely that the triple lock will increase the relative value of the pension, providing greater benefit to those reaching State Pension age in the future.

It's also worth noting the impact of moving from RPI to CPI as the index used for price uprating. We calculate that the basic pension increased by the triple lock is now only about £2 a week higher than it would have been under the old RPI uprating formula. In other words, it could be said that in making these two changes the Government of the day essentially gave with one hand and took away with the other.

**What about the new single-tier pension?**

Those reaching State Pension age from 6 April 2016 onwards receive the new State Pension. The triple lock applies to the full new State Pension (up to the maximum amount of £159.55) but overall the new pension system is not more generous than the one it replaced. Some people will receive more and some less than under the old system and, in time, expenditure on the State Pension will be lower than it would have been had the old system continued.[8] This reduction in spending going forward is based on analysis and projections which assume that the triple lock is maintained.

6 http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2017-02-01/62779/
7 http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7812
8 https://www.nao.org.uk/wp-content/uploads/2016/11/Introduction-to-the-new-state-pension.pdf

### The impact on individuals

Many older people would be understandably surprised to hear any suggestion that the triple lock provides a 'generous' uprating. For example, one woman who wrote to Age UK last year because she was concerned about how she would manage when her total weekly income (basic and additional State Pensions and a small private pension) rose in April 2016 by 'a meagre £3.35'. She was facing a rise in other bills and was particularly concerned about the cost of spectacles. Another told us that after 47 years of full time work her State Pension of £134 a week was 'not mega bucks'. And while she was thankful for the April increase, this was less than the rise in her council tax and utility bills. In April 2017 the basic State Pension, increased by the triple lock, rose by just £3.00 a week (£156 a year).

### Policies around the State Pension are not just about current pensioners

Current debates around whether the triple lock should be changed are sometimes framed in the context of average pensioner incomes rising by more than the average income of younger people over recent years. However, average figures do not tell the whole picture. The Pensions Policy Institute (PPI) concluded that the increase in median incomes of pensioners is 'largely driven by replacement in the population with younger members who have a higher income'.[9] And when they used longitudinal data to track the position of the same individuals over time, they found that half of those aged 60+ in 2007-08 had lower incomes in real terms seven years later.

Projections in the Cridland Report on State Pension age show that the State Pension is expected to continue to be an important element of retirement income for younger generations, particularly for low earners and women.[10] These projections assume the triple lock stays in place as do all the Government's projections on the impact of the new State Pension.

The PPI have shown the difference that the triple lock can make. It has calculated that a younger person with lower earnings has a 63% chance of achieving an adequate retirement income if the new State Pension is increased by the triple lock, but this could fall to 36% if it is linked to earnings.[11]

### Age UK's views

Age UK strongly supports the triple lock. As shown earlier, the triple lock has helped increase the real value of the basic State Pension after many years when this fell as it was only linked to prices. It also needs to be remembered that even with the triple

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9 http://www.pensionspolicyinstitute.org.uk/briefing-notes/briefing-note-88---have-pensioners%E2%80%99-incomes-grown-in-this-period-of-austerity

10 *Smoothing the transition* Final report of the Independent Review of the State Pension age. 2017. https://www.gov.uk/government/publications/state-pension-age-independent-review-final-report

11 *What level of pension contribution is required to obtain an adequate retirement income?* PPI, 2013. https://www.pensionspolicyinstitute.org.uk/default.asp?p=12&publication=0349&

lock, over the course of retirement the value of other sources of income is likely to fall in real terms. Elements of the State Pension such as the additional pension (SERPS/S2P) are only increased in line with CPI, private pension and annuity income often do not even keep pace with prices, and savings income has been staggeringly low for a number of years. The triple lock helps ensure that at least one element of retirement income maintains its value over time and helps bring up the level of the State Pension.

The State Pension forms all or the bulk of the retirement income of most pensioners on low and medium incomes and this support needs to be maintained, especially at a time when the latest figures show a small rise in pensioner poverty. And if the triple lock were to be abandoned the greatest impact would be on future pensioners, particularly those with low life time earnings (the majority of whom are women), for whom the State Pension will continue to be very important.

Age UK believes there is a good case for retaining the triple lock. There are alternative uprating mechanisms that could be used, such as a double lock. However, any future review should be based on a full picture of the impact on poverty and income levels for older people today and in the future - both at the time they reach State Pension age and throughout retirement. This should look particularly at the impact on groups such as women, disabled people and those with low life time earnings, who are more reliant on the State Pension.

**Can we afford the triple lock?**

While there are pressures on public spending OBR projections show that spending on State Pensions and benefits such as Pension Credit is projected to fall from 5.2% to 5.0% of GDP between 2016-17 and 2020-21.[12] And while over the longer term spending is likely to increase because of demographic change, with an ageing population we may need to accept that the proportion of GDP spent on them goes up too, especially as expenditure on State Pensions in the UK is lower than in many similar countries.

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[12] http://cdn.budgetresponsibility.org.uk/FSR_Jan17.pdf