What is the triple lock? Why state pension ‘could increase 8%’ next year – what the system means

(Photo: Gareth Fuller/PA)

The retired population are set to see a huge predicted rise for state pensions next year, which will affect people’s finances.

It’s thought the link with earnings growth could mean an 8 per cent rise in the amount paid from April 2022.

The rise in pensions each year is one of the most fraught policy decisions for the Government and the Treasury. It is governed by what is known as the triple lock – a Conservative manifesto promise set to last until at least 2024.

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Here's what you need to know about the state pension rise.

What is the triple lock on pensions?

There is a statutory requirement to uprate the basic State Pension (bSP), and new State Pension (nSP) introduced in 2016, every year, at least in line with earnings.

The triple lock is a government pledge that the bSP and nSP must rise each year in line with the highest of three possible figures: the rise in prices, the rise in earnings or 2.5%.

According to a report from the House of Commons Library: "The triple lock is a government commitment, over and above the statutory requirement, to uprate the basic and new State Pension by the highest of earnings, prices or 2.5 per cent.

"Its introduction was announced by the Coalition Government in its first Budget after the 2010 election."

The policy has been applied by subsequent governments. The measure of prices used is normally the Consumer Prices Index (CPI).

When asked in October whether the triple lock was safe, Chancellor Rishi Sunak said: "Yes, our manifesto commitments are there and that is very much the legislative position.

"We care very much about pensioners and making sure they have security and that's indeed our policy."

How will it affect my finances?

At the end of each year, the Government sets the level of state pension to be paid from the following April, based on data from the Office for National Statistics.

The most relevant for the next rise in state pension will be the highest of the three elements of the triple lock, which is likely to be the increasing level of average wages.

The OBR is the Government's official, but independent, forecaster; early this year it predicted wages would rise by 4.6 per cent. But now the increase is thought to be even higher, with the Bank of England suggesting an 8 per cent rise.

"If earnings growth… were 8 per cent, that would add around £3bn a year to spending [on the state pension] relative to our forecast," the OBR said in its Fiscal Risks Report.

The new flat-rate state pension (for those who reached state pension age before April 2016) is £179.60 a week.

The old basic state pension (for those who reached state pension age before April 2016) is £137.60 a week.

Despite this, the UK state pension remains one of the least generous in Europe, and the OBR has warned that not all pensioners will benefit from the uplift, as so many low-paid workers have lost jobs during the pandemic.

> ## The triple lock must go
>
> By Mark Baker

> Maintaining the triple lock on pensions is immoral. Each year, it ratchets state pensions higher, ensuring they can never lag behind the wages of those who must foot the bill – but often unaffordably outpacing them.
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> The "I've paid in all my life" brigade conveniently overlook the fact that there's no pot sitting there waiting to be drawn down. Current tax pays for current pensions.
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> The most cosseted generation in human history is trousering a blatant electoral bribe by the Conservatives.
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> Of course, the system must continue to protect the poorest, but the automatic ratchet has served its purpose, feathering pensioner nests over a lost decade that has seen wider living standards stagnate.
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> Covid-19 has only exacerbated the injustice. Having sacrificed their livelihoods to protect older people during the pandemic, the sting in the tail for young people has been to watch the state pension get another uplift even as pensioner wealth soared to unprecedented heights.
>
> Unfortunately, abandoning the triple-lock will do nothing to correct today's imbalance between the old and the young. In fact, current pensioners will barely notice the change as the impact will only accumulate over time.
>
> It is these self-same youngsters whose pensions will be worth less by the time they collect them. This doesn't change the need for reform, but it should prompt a hard look at the unfair tax burden shouldered today by the young in favour of the old, especially as we grasp the nettle of how to fund adult social care, a far more deserving cause than more goodies for well-padded pensioners.