Industry sceptical of potential pensions triple lock suspension

By Cristian Angeloni, 9 Jul 21

'To erode a system which is already behind many other first world nations may be short-sighted'

UK Chancellor of the Exchequer Rishi Sunak has recently hinted at a possible suspension of the pensions triple lock policy for the 2022-23 financial year to help the government cut costs and avoid any further financial pains induced by the pandemic.

But several industry players told *International Adviser* that it is highly unlikely such a measure will see the light of day.

David White, managing director of QB Partners, said that suspending the policy will inevitably attract criticism from Tory sceptics as well as immediately impact older voters and those close to retirement age.

But Steve Webb, partner at LCP, said that the government is legally bound to link the state pension to earning as this is "enshrined in law".

"Regardless of the Conservative manifesto or any other policy decision, the chancellor has a legal obligation to uprate pensions in line with earnings growth unless he explicitly passes a law to say he doesn't have to," he said.

Two likely ways

Tom Selby, senior analyst at AJ Bell, and Steven Cameron, pensions director at Aegon, alongside White and Webb, all believe there will be two possible outcomes.

Sunak will either try to spread the 8% increase – which could cost the government a total of £3bn ($4.1bn, €3.5bn) – over two years; or adjust the figures provided by the Office for National Statistics (ONS).

The ONS previously said that, had it not been for the impact of covid, lockdowns and furlough, the increase would have been likely to be around 3%.

"Whatever decision is made, the sooner plans are communicated the better so state pensioners aren't left in the dark on what will happen to their payments," Cameron said.

A 'short-sighted' move

Additionally, they all believe the government is unlikely to scrap or suspend the triple lock as the UK state pension is already one of the lowest in the developed world.

LCP's Webb added: "The triple lock was implemented a decade ago to provide an upward 'ratchet' to the value of the state pension. Despite ten years of relatively generous uprating, the level of the UK state pension remains one of the lowest in the advanced economies.

"There remains a case for further real terms increases over the coming years. But the latest earnings figures do seem to have been highly distorted by the pandemic, and the triple lock was never designed with such situations in mind.

"It seems highly likely that the chancellor will use a modified earnings figure for the next uprating, trying to strip out the one-off effects of the pandemic. Many people would feel that a temporary adjustment to the formula was justifiable whilst remaining of the view that the state pension does still need to be improved over the medium term".

QB Partner's White said: "Whilst the reasons for the suspension of triple lock being considered are clear – the chancellor is looking at all ways to cut costs and to protect the government against further cost impacts – any suspension must be set against the fact that the UK state pension is one of the lowest in Europe, when compared to average wages.

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