Hands off our state pensions! Fears the triple lock faces the axe

When the state pension triple-lock was announced in 2010, then chancellor George Osborne pledged it would provide 'lasting help for pensioners' and ensure they 'have the income to live with dignity in retirement'.

The new guarantee meant payments would rise annually by the higher of average earnings, inflation or 2.5 per cent — putting an end to meagre 75p-a-week increases.

Although this pensions safeguard is enshrined in law, and was a flagship Tory manifesto promise at the last election, the triple-lock is under attack again.

There are concerns that a distortion to average earnings figures triggered by furlough, job losses and pay cuts in the pandemic could see an 8 per cent rise from the triple lock.

Pensions threat: After a year of unrivalled spending, the Government needs to repair public finances meaning the triple-lock is under attack once again

Over the years, ministers have threatened to scrap this vital policy claiming it is too expensive.

And last week Chancellor Rishi Sunak hinted the triple-lock could be suspended — at least for next year.

He said that a rise needed to be fair to pensioners and taxpayers. It is not clear how this would be achieved, one option would be to do a double lock, ie just inflation and 2.5 per cent, but it is more likely that a smoothed average for wage growth would be used - perhaps taken over two years.

Since the Chancellor's comment, Money Mail has been inundated with letters from angry pensioners who feel they are being taken for granted.

Some are already struggling to make ends meet after rising inflation saw utility bills and food costs soar. Energy bills jumped 4 per cent in April, while fuel prices are nearly 20 per cent higher than last year.

'Many over-75s have already been betrayed by having their free TV licences revoked,' writes Ken Hobbins, 62, from Sutton Coldfield.

'Pensioners had no extra support during the pandemic — and didn't make a fuss when others did,' says David Harland, 72, from Durham.

'Let's not forget the Chancellor has already frozen the tax-free personal allowance until 2026, meaning much of the money can be clawed back anyway,' adds Annie Aronowitz, 78, of Wembley.

Here we explain why the triple-lock is in jeopardy — and what any change might mean for you.

What is the triple-lock?

Former chancellor George Osborne devised the triple-lock to prevent pensioners' income falling in real terms.

It ensures the state pension always rises each year by at least 2.5 per cent, or — if costs are rising faster elsewhere — by one of two measures. These are the consumer price index (a measure of inflation) and the average wage rise.

At the last General Election, the Tories, Labour, Lib Dems and SNP all pledged to keep the triple-lock.

Until recently, Boris Johnson's government firmly supported it. But because of costly pandemic measures, a U-turn is feared.

The triple lock guarantee means that state payments will rise annually by the higher of average earnings, inflation or 2.5 per cent

Why is vital policy at risk?

After a year of unrivalled spending, the Government needs to repair public finances. Britain has already borrowed a whopping £355 billion during the pandemic, and the cost of servicing this debt is rising.

The Government spends more than £100 billion a year on state pensions. Each percentage point increase in the pension adds £0.9 billion to the bill.

The state pension typically rises 2.5 per cent to 3 per cent a year, meaning the triple-lock costs about £2 billion annually. The Treasury is said to be worried about the impact of the wage increase guarantee.

The use of furlough in 2020 and its unwinding now, plus job losses hitting the low paid harder and bumping up the average as they have fallen our of the figures, means the average wage could be 8 per cent higher this year than last.

Putting up the state pension by the same amount will cost an extra £4 billion.

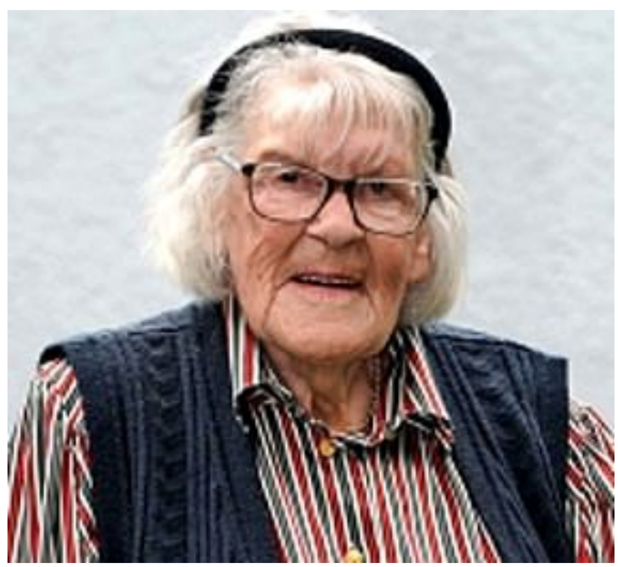
Ministers can save money in other areas, of course. Test and Trace is still costing more than £1 billion a month, while May's furlough bill hit £2.5 billion.

The Government will need to think carefully about cuts elsewhere and how these will be viewed. The temporary rise in Universal Credit, for example, is set to end in September.

So, if the triple-lock is kept, the Government could be accused of taking cash from working-age households to protect wealthier pensioners.

Rising costs mean having to make cuts now

Barbara Williamson, 94, from Norwich, says she's feeling the squeeze — despite qualifying for additional support.



Barbara Williamson has cut back on her cleaner - who also functions as home-help

A widow who worked as a wages clerk, she says rising costs have meant cutting back on her cleaner — who also functions as home-help — in order to prioritise computer lessons.

With a grown-up son in New Zealand, the lessons are vital to help her stay in touch and keep her phone bill low.

'Money is already tight, so it's sad to hear the Government is considering leaving older people out of pocket,' she says.

She receives the state pension, pension credit and a widow's pension. She is eligible for benefits such as a free TV licence but had trouble getting it.

'I had to get a friend to help me prove I was eligible for an exemption,' she says. 'These things aren't easy when you are older.'

Is it too generous?

Before assessing the triple-lock, it's important to look at how pensioners are faring generally.

By one measure, Britain's state pension is among the lowest in Europe (as a percentage of average earnings).

But this measure isn't without problems. Data for other countries sometimes includes private pensions.

And the state pension was designed as part of a package of support, alongside perks such as winter fuel payments, free television licences (now means-tested) and freedom from paying national insurance on earned income.

'The 'old' basic state pension is just over £7,000 a year, and the 'new' flat-rate pension is just over £9,000,' says Sir Steve Webb, the former pensions minister who helped deliver the triple-lock.

'Neither on their own would replace the

income from a job paying even the average wage.'

And not everyone has a private pension to top up their income, particularly older women who are more likely to have taken time out of work to raise children.

Sir Steve adds that, before the triple-lock, the state pension was linked to price inflation only.

This sometimes led to a raw deal for pensioners — as in 2000, when the state pension rose by a meagre 75p a week.

And inflation leads to money losing its value over time.

Even before the triple-lock, pensions were linked to inflation: so in theory at least, retirees wouldn't see living costs outstrip their income.

When, like now, inflation is rising, this becomes more relevant. Then there's the matter of increasing costs — and an erosion of the value of cash savings — which means many households will already be feeling the pinch, without pensions being trimmed.

Threat to triple-lock is appalling

Les Dorey, 78, says he is 'appalled' that Boris Johnson is thinking of breaking his promise over the triple-lock.

'Pensioners have been taken for granted for too long, ' he says.

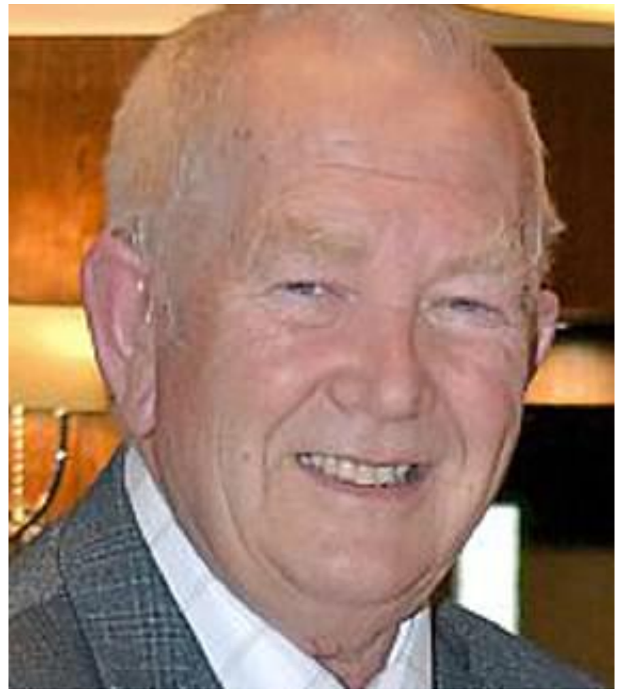
'My increase last year was just over £25, while my road tax increased by £45. My bills are up £20 and my council tax is 5 per cent higher.'

The former construction industry professional, who lives in Derbyshire

with his wife, says he's lucky to have a comfortable private pension.

'Having been a councillor, I know that's not the case for everyone around here,' he says. 'Many people have worked all their lives and are struggling.'

'The Government seems to think that pensioners are fair game,' he adds.



Rising costs: Les Dorey's bills are up £20 and his council tax is 5 per cent higher

Could it really be cut back soon?

Last week, Rishi Sunak gave the strongest hint so far that the triple-lock might be in danger.

In an interview with the BBC, the Chancellor refused to back the policy, saying only that the Government would ensure any decision was 'fair' to pensioners and taxpayers.

Most commentators expect an announcement to be made in the autumn, when the Government has more data on inflation.

When Money Mail asked when the decision would be taken, and how 'fairness' will be assessed, the Treasury would only say that the pension rise is usually announced in November, and that ministers consider the 'equalities impacts' of all policy decisions.

Some experts speculate that the policy could be 'suspended' for one year — meaning pensioners would lose out on their promised triple lock raise due in April 2022.

The question then becomes whether it becomes a double-lock — and reverts to the next highest number. This latter point is particularly important if inflation also rises, as many expect.

Maintaining a double-lock would ensure that, at the very least, pensioners don't see their spending power eroded by inflation.

There have been calls to reform the triple-lock before (including from the Conservatives) but these typically focus on the 2.5 per cent guarantee.

Some will be fearing that even a temporary adjustment to the triple-lock could reopen those arguments — and lead to pensioners losing out in the long run.

Many pensioners are already struggling to make ends meet after rising inflation saw utility bills and food costs soar

Who is likely to miss out?

Of course, there is a big difference between how Whitehall considers these things, and how those who rely on the pension see them.

For someone on the full current basic state pension of £137.60 a week (i.e. anyone retiring before 2016), this 8 per cent rise works out at about £11 per week.

Few pensioners are likely to feel that such a sum — less than one-third of the average weekly supermarket trip — is excessive.

For someone on the new state pension, £179.60, introduced in 2016 to provide a simpler model, the difference is slightly more.

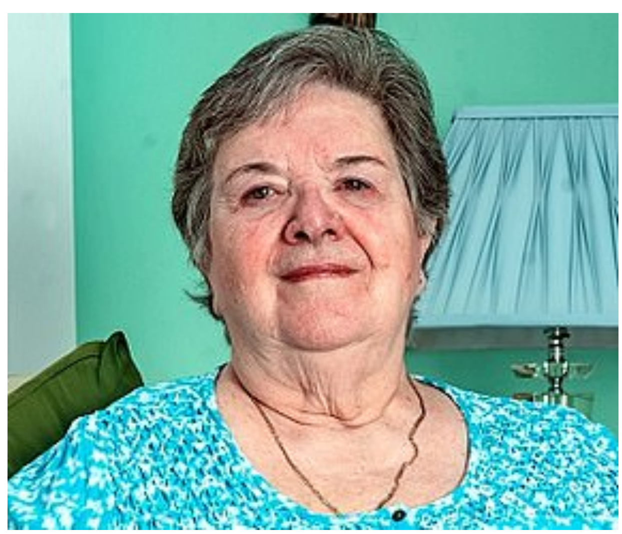
They may get roughly £15 a week more under the the triple-lock as it stands.

In a time of rising living costs, that £15 could be the difference between living comfortably or having to make cutbacks.

Voters will voice anger at the polls

Elaine Iffland, 76, from Bristol, says that she's already feeling the pinch. 'If the Government doesn't keep the triple-lock, older voters will certainly show their anger at the next election,' she adds.

The former researcher and NHS worker receives a small private pension of £400 per month. She lives alone and owns her own home.



Elaine Iffland says the Government will lose votes if the abandon the triple lock

'Every year my direct debits for water and energy rise by far more than the state pension,' she says.

Without support for dental and eyecare costs, she's also had to shell out £282 for denture appointments and £140 for new glasses.

A lack of direct bus routes means she also has to pay for a taxi to get back and forth to the hospital.

'If they cut the triple-lock, pensioners will fall further behind, with less money for basics such as food and heating,' she says.

What do the pensions experts think?

While there are calls for reform of the triple-lock, many experts stress the need for caution.

Any changes to state pensions need to consider the people whose livelihoods and retirements will face the biggest impact,' says Amanda Latham from pension advisers Barnett Waddingham

The firm's research has found that, as women are more likely to rely on a state pension, they would be the most affected if the triple-lock were suspended.

'Reforming the triple-lock system is certainly overdue but it's critical that the priority is to bring it to a quality that everyone values and supports,' she adds.

Meanwhile, Sarah Coles, personal finance analyst with investment platform Hargreaves Lansdown, says younger people should beware of calling for the end of the triple-lock.

'Any removal of the 2.5 per cent guarantee without an overall rise in the state pension would effectively mean signing us up to the current level of the state pension for the foreseeable future,' she says.

'This would have far-reaching consequences not just for today's pensioners, but for today's taxpayers who hope to draw a reasonable state pension in future.'

Former pensions minister Ros Altmann says: 'The triple lock was a tangible demonstration of a determination to protect pensioners.

'So I would caution the Chancellor against breaking its manifesto commitment just because average earnings growth may be high this year.

'What is needed is not more short-term tinkering, but a comprehensive review of all aspects of pensioner support.'

Steve Webb, now a partner at pensions firm Lane Clark & Peacock, predicts that the Treasury will come up with a compromise that maintains the triple-lock into the future.

'The main options for the Chancellor if he wants to broadly keep the triple-lock would be to 'fudge' the earnings number this year,' he says.

'This could be done by averaging wage growth over the past two years, or trying to find a figure for "underlying" earnings growth — and I suspect it's quite likely.'

He also says the original aim of the triple-lock is as valid as ever.

'While it would be understandable if the Chancellor used a different measure for earnings growth, the Government needs to continue to restore the value of the pension,' he says.

'This is particularly important for women who are much less likely to have significant private income to rely on. The state pension is still relatively low by international standards.'

Will the triple lock pay out if it means an 8% state pension rise?

Is it fair for pensioners to get a bumper increase based on a distortion caused by the pay pain suffered by workers in lockdown?

Some say ‘no’, others say ‘stick to the deal’.

On this podcast, Tanya Jefferies, Georgie Frost and Simon Lambert look at what is causing the triple lock anomaly and what the Government might do. Will they pay up or fudge it?

Plus, the painful cases of those who cannot afford funerals for loved ones, the return of gazumping to the property market, and finally, the crazy NatWest banking rule that has forced a reader to have their employer’s bank accounts mixed with theirs in online banking.

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