Simple tweak could fix pension triple lock dilemma

By Lois Vallely 15th July 2021 3:25 pm

A simple tweak could provide the answer to the chancellor's triple lock dilemma, Quilter has suggested.

It said chancellor Rishi Sunak could use a three-year rolling average figure for wage growth to avoid a large increase in expenditure expected next year.

The triple lock ensures that the state pension is guaranteed to be uprated each year by wage growth, inflation or 2.5%; whichever is highest.

Wage growth was negative in 2020 but earnings have bounce-backed sharply this year with the winding down of the furlough scheme as the economy re-opens.

The latest figures from the Office for National Statistics (ONS) showed earnings (including bonuses) increased by 7.3% in the three months to May 2021, up from 5.6% last month.

It suggested they could increase even further over the coming months before the final reading is taken in September.

The Office for Budget Responsibility (OBR) has forecast that earnings growth could rise to 8% in the next two months.

This resurgence in wage growth will have a dramatic impact on state pension uprating if the chancellor maintains the triple lock in its current form.

Quilter head of retirement policy Jon Greer said the triple lock will uprate in the following way below.

	2021/22	2022/23
Basic state pension	£137.60	£147.65
New state pension	£179.60	£192.70

*Assuming uprating of 7.3%, rounded to the nearest 5p based on full entitlement.

This assumes earnings growth remains at 7.3%, and Consumer Price Index (CPI) inflation stays below this figure.

Yesterday's inflation data showed an increase in CPI to 2.5%.

Greer suggested that, by keeping the triple lock in place, the 7.3% uprating will cost the government an additional £6.7bn in 2022/23.

This is £4.4bn more than if the state pension increased by CPI inflation or 2.5% only.

Meanwhile, the tweak outlined above would uprate the state pension by 3.4% in 2022/23 to give pensioners the following weekly income.

	2021/22	2022/23
Basic state pension	£137.60	£142.30
New state pension	£179.60	£185.70

*Assuming uprating of 3.4%, rounded to the nearest 5p based on full entitlement.

This methodology would provide a short-term solution to the wage volatility experienced this year.

It would also save the government £3.5bn next year compared to maintaining the triple lock in its current form, Greer suggested.

"Real wages aren't really growing by 7.3% when you remove the distortionary impact of Covid on the labour market," he said.

"The chancellor has said there must be fairness between taxpayers and pensioners in setting the state pension increase, and one way this could be achieved is by basing the earnings-growth element on a three-year rolling average figure.

"That way, state pensions will still increase by a generous 3.4% next year, but the exchequer will save £3.5bn and preserve some semblance of intergenerational fairness.

"Ultimately, debates around the triple lock often get linked to the overall level of the state pension but that is another matter entirely.

"Tweaking the triple lock doesn't mean a state pension cut. This is about how it maintains its value fairly over time."

Also commenting on the issue, Steve Webb, partner at LCP, said: "The triple lock was designed to give a steady boost to the value of the state pension which remains one of the lowest in the Western world. But it was not designed for a period when average earnings figures are as volatile as at present.

"The chancellor may well be tempted to use an 'adjusted' average earnings figure for the April 2022 uprating as this might 'get him off the hook' this time round. But if he does so he should also re-commit to a strategy of building up the value of the state pension thereafter.

"This is particularly important to growing numbers of women who have worked in the private sector, who may have very modest workplace pensions and are heavily dependent on the state pension."