Should the Chancellor honour the state pension triple lock?

Triple lock: A 6.6% rise would give pensioners a boost in income from £179.60 to £191.45

A 6.6 per cent jump in earnings is ramping up pressure on the Chancellor over whether to keep the triple lock pledge and give the elderly a bumper state pension increase next year.

Earnings figures have been massively distorted by the Covid crash and are artificially high, but 90 per cent of more than 3,000 This is Money readers who voted in a poll said the triple lock should be honoured in full.

The latest rise would give pensioners a boost in income from £179.60 to £191.45 a week, but wage growth announced in September will be the determining figure - and it might be even higher by then.

The 'triple lock' is the Government's pledge to increase the state pension by whatever is the highest of price inflation, average earnings growth or 2.5 per cent, and the commitment was renewed in its last election manifesto.

This is Money readers are enthusiastic to see this honoured, voting nine to one in favour in our ongoing poll (scroll down to have your say) and pensioners point out that they **struggle to make ends meet in retirement.**

But Rishi Sunak is already **signalling he might balk at the cost,** and commentators have pointed out wages are only surging now because many workers suffered the misery of pay cuts and job losses when the pandemic struck last year.

Many were furloughed, or saw wage cuts or freezes, while lower paid staff were pushed out of the workforce which has artificially pushed up average earnings for now.

Pension experts say that Sunak could solve the issue by smoothing wage growth over two or three years, as a one-off measure due to the unprecedented distortions caused by the pandemic - we looked at his main options **here.**

It is likely that the Treasury will come up with an acceptable fudge after the key wage growth figure comes out in September, or at the latest when the inflation rate is announced in October.

The Government won't want elderly voters to get carried away for too long about the prospect of big state pension increase if it definitely doesn't intend to come through with one in the spring.

Elderly people on the full flat rate currently get £179.60 a week or around £9,300 a year, and a 6.6 per cent rise would boost this to £191.45 and around £10,000.

The old basic state pension, not including second state pension or SERPS that people built up on top, is £137.60 or around £7,200 a year. So, this would increase to £146.70 or around £7,600.

'A big increase now would be locked in for good'

'The figures lay bare the challenge that Rishi Sunak has to wrestle with,' says

Sarah Coles, personal finance analyst at Hargreaves Lansdown, on the latest pay increase announcement.

'When you compare it to last year, pay inflation in the three months to May was a massive 7.3 per cent [including bonuses], and in May the annual rise was 8.6 per cent. If these kinds of wage hikes feed into the state pension triple lock, the government faces paying out billions of pounds more than planned.

'In May we started comparing wages against three months of the first lockdown, when hours fell away, millions were furloughed, and pay fell dramatically, so a big part of the rise is due to the fact we're comparing wages to such a low level.

'The issue for the government is that if it sticks with the triple lock in its current form, a big rise in state pensions doesn't just cost them more this year.

'This increase is locked in for good, so the extra cost stretches off into the far distance. The triple lock just can't cope with sudden and spikey wage changes.

'Sunak has already suggested he may be rethinking the role of the triple lock in future, and these figures indicate that an element of smoothing applied to the wage figures could fit the bill.

'It would mean the spikes are evened out to a more gradual rise, so pensioners keep the incredible value of the triple lock, and the government doesn't have to scrabble around to try to find billions of pounds in its budget.'

'State pension rise could be around 3.5% with smoothing over two years'

'Last month, the Office for National Statistics suggested a more accurate figure of average earnings with the distortions stripped out is around 3 per cent,' says Steven Cameron, pensions director at Aegon.

'In a blog published today, they have updated this to between 3.2 per cent and 4.4 per cent. Using these figures could be an option for the Chancellor to retain the triple lock principles, albeit with adjustment.

'Another consideration would be to smooth out the sharp peaks and troughs we're seeing in earnings growth and base triple lock increases on experiences over two or more years.

'The ONS report points out that looking over a two-year period, the growth in average earnings is actually less at 7.1 per cent than the rise over one year of 8.6 per cent. If an average over two years were taken, the earnings component would be around 3.5 per cent.

'The triple lock costs the Government around £0.9billion for every 1 per cent rise, so Rishi Sunak may still be hoping for an easing in average earnings ahead of the all-important July figure, published in September, but time is running out.

'The Chancellor has indicated that any decisions to put the UK's finances back on a sounder footing post-pandemic will need to weigh up the interests of different generations.

'The state pension is paid for by National Insurance contributions of today's workers, so the Government will face a difficult balancing act.

'There will be questions around intergenerational fairness if state pensioners receive a 8 per cent or higher increase, paid for by today’s workers, which is far above the pay rises those workers will typically have received.'

State pension dilemma: The Chancellor Rishi Sunak is already signalling he might balk at the cost of a massive rise in the spring

'Young people will benefit eventually, but that is a long time away'

The Chancellor could temporarily tweak the triple lock by using a three-year rolling average figure for wage growth, which would uprate the state pension by 3.4 per cent in 2022/23 and save the Government £3.5billion next year, according to Jon Greer, head of retirement policy at Quilter.

'The triple lock has become a symbol of intergenerational tension, exacerbated by the rather artificial increase in earnings figures we are beginning to see this year,' he says.

“On the one hand, some say the triple lock should be scrapped because it would provide a huge boost to pensioner income at a time when many young people will be struggling to find work and will still be reeling from the sacrifices they have been forced to make over the past 16 months.

'On the other hand, there are arguments that the young people should welcome the increased state pension as they will one day receive the benefit themselves.

'The truth is that both arguments are correct. Young people will benefit eventually, but that is a long time away. What matters in the here and now is that state pension uprating is done in a way that links pensioner income to experiences in the wider economy.

'Real wages aren’t really growing by 7.3 per cent [6.6 per cent excluding bonuses] when you remove the distortionary impact of Covid on the labour market.'

'Political price of breaking a commitment to older voters may be too much to bear'

'Chancellor Rishi Sunak faces being caught between the devil and the deep blue sea on the state pension triple lock,' says Tom Selby, senior analyst at AJ Bell.

'Lockdown has created an extreme set of circumstances which saw salaries suppressed in 2020, with millions of people furloughed on 80 per cent of their usual wages.

'As the economy returns towards something closer to "normal" this summer, both earnings and inflation – two of the three elements of the triple-lock – are expected to spike.

'The Office for Budget Responsibility reckons every 1 percentage point added to the state pension via the triple-lock costs the Treasury just shy of £1billion.

'Such numbers are enough to make any Chancellor wince even during normal economic times, let alone after a year when borrowing has ballooned by hundreds of billions of pounds.

'One option would be to ditch the earnings element of the triple-lock altogether, either for this year only or perhaps the rest of this Parliament.

'However, the political price of breaking a manifesto commitment that affects older voters may be too much to bear.

'Alternatively, the triple-lock methodology could be tweaked so average earnings over a longer period of time are used as the reference point, rather than the figure for the three months to July.

'This would help smooth out the increase while also allowing the Chancellor to say the triple lock remains intact.'

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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