Spending billions more on state pensions is 'completely absurd', warns IFS chief

An 8pc increase in the pension this year would be 'ludicrous' for both fairness and fiscal sustainability reasons, according to Paul Johnson

By Russell Lynch, Economics Editor 19 July 2021 • 9:00am

Britain's foremost fiscal watchdog has stepped up pressure on ministers to compromise over the pension triple lock after warning it would be "ludicrous" to spend billions extra based on pay data distorted by the pandemic.

The intervention from Paul Johnson, director of the Institute for Fiscal Studies, comes amid intense scrutiny of the Conservatives' manifesto commitment to raise pensions by inflation, annual earnings or 2.5pc – whichever is highest.

Consultant Capital Economics estimates that average earnings will rise 8.5pc year-on-year in the three months to July, potentially adding more than £7bn to the £85bn of the state pension covered by the lock.

Mr Johnson said: "It will be completely absurd, frankly, to increase the basic state pension by 8pc this year. When we're just struggling our way out of a deep recession and incomes across the plate are struggling in the public finances are in a very difficult place.

"To have an 8pc increase in the pension this year will be ludicrous for all sorts of reasons to do with both fairness and fiscal sustainability.”

Despite bearing the brunt of the health impact of Covid, previous IFS research has shown retirees were relatively better off financially than the hardest hit groups such as younger workers, Mr Johnson added.

The potentially soaring pension bill comes after the UK racked up its biggest peacetime deficit of £300bn to fight the pandemic, with a further £200bn of borrowing expected in the current financial year.

Former pensions minister Sir Steve Webb added that there was technically “wriggle room” in the wording of legislation that allows ministers to choose the earnings measure when uprating pensions.

While the triple lock is a manifesto commitment, only the link to earnings is enshrined in legislation, which forced the Government to pass a short bill last year to raise pensions by 2.5pc when earnings fell due to the pandemic, Sir Steve said.

The former minister, who signed the earnings link into law a decade ago, said the legislation allowed the Chancellor to “estimate the general level of earnings in such manner as he sees fit”.

Sir Steve said: “My hunch is [that] though in theory you might say, ‘that gives some wiggle room, they could do underlying earnings or smoothed earnings’, I think they would pass a motion to do it. Forget the triple lock – by law, it has to be linked to earnings anyway.

“If you’ve used one measure of earnings for the last 10 years, to just wake up one day and pick a different number, I think somebody would judicially review it. Due process is probably such that they would have to amend the legislation.”

The Office for National Statistics has published figures stripping out the effects of both the furlough and the disproportionate number of lower-paid workers hit by the crisis pushing up average wages. It estimates underlying wage growth of 3.2pc and 4.4pc in the three months to May.

Chancellor Rishi Sunak has previously hinted at a compromise on the controversial issue and said next year's pension rise would be "based on fairness to both pensioners and taxpayers".

Treasury sources said ministers would make the final decision when more concrete earnings figures were published in the autumn.

What do you think about proposed pension increases? Let us know in the comments section below.

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