# UK retirees to get 'third biggest increase' in state pension

By Cristian Angeloni, 20 Oct 21

**But 3.1% uplift in the 2022-23 financial year 'may fall short' of cost of living rises**

The UK's Office for National Statistics (ONS) revealed that the Consumer Price Index (CPI) inflation figures for September 2021 was 3.1%.

This means that British retirees will receive a boost to their state pension in line with inflation.

The announcement follows the decision by the UK government to suspend the pensions triple lock system – which sets out that pensions rise by average earning growth, inflation, or 2.5%, whichever is highest – due to an anomaly in earnings figures post-lockdowns as the figure surged to over 8%.

The suspension is only supposed to take place for the 2022-23 financial year – where it is going to be replaced by a 'double lock', discarding the earnings component.

As a result, from next year, the basic state pension will increase by £4.25 a week to £141.85 and the flat rate state pension by £5.55 to £185.15 ($255.31, €219.27) per week.

This marks the "third biggest increase" for state pensions since the triple lock was introduced, said Steven Cameron, pension director at Aegon.

## Savings exercise

Tom Selby, head of retirement policy at AJ Bell, said: "The good news for retirees is the state pension is set to increase by 3.1% next year.

"However, the government's decision to suspend the earnings element of the state pension triple lock means retirees will miss out on a blockbuster 8.3% increase. This decision will 'cost' someone in receipt of the full flat-rate state pension £9.35 a week in retirement income – or £486.20 over the course of the year.

"Each 1 percentage point increase in the state pension costs the Exchequer an estimated £900m, meaning the Treasury is likely to save around £4.5bn as a result of the move. For savers, the decision to ditch the triple lock was another reminder that the state pension, while valuable as a retirement income foundation, remains uncertain and subject to the whims of politicians.

"Indeed, both the amount you receive and the age you receive it has been subject to significant reform over the last decade.

"It is therefore crucial anyone wanting control over their retirement and a standard of living above the basic minimum covered by the state pension saves as much as they can as early as they can, taking advantage of matched contributions and tax relief and allowing compound growth to work its magic over the long-term."

## Will it be enough?

But industry players said that missing out on £486 over the next year is not the only worry retirees may have for the near future.

This is because inflation is forecast to rise in the next few months and there is a concern that the 3.1% boost "may fall short of cost of living increases come April 2022", said Aegon's Cameron.

He continued: "With many pensioners heavily reliant on their state pension, and disproportionately affected by increased heating costs from the global energy squeeze, many could feel 'left out in the cold'."

Becky O'Connor, head of pensions and savings at interactive Investor, added: "While those receiving a state pension can take comfort from it heading up in line with inflation from next April, with energy prices rising by the minute and the cost of food and other consumer goods continuing to increase, older people will not feel out of the words yet.

"Pensioners are potentially more exposed than most to rising inflation because their income is limited and a higher proportion of their spending goes on essentials, like energy.

"Older people also tend to choose lower risk investments within their private pensions and are more likely to use cash savings to avoid investment losses later in life, so are more exposed to inflation eroding the value of their wealth. So, it is some comfort to know that at least the state pension part of their income is rising in line with inflation.

"However, the economy remains volatile and retired people will be watching to see whether inflation continues to rise. If it does, then next year's state pension increase may still not feel big enough to cope with rising bills."

## Tax allowances

While state pensions will grow, the same cannot be said for the lifetime allowance (LTA).

The threshold has historically kept in line with inflation as well, but in the latest budget, chancellor Rishi Sunak revealed that the LTA, alongside other allowances, would be frozen at the current rate until at least 2026.

This means that those who exceed the £1,073,100 limit now and/or in the next five years will face tax liabilities.

Andrew Tully, technical director at Canada Life, said: "A freeze in the pension lifetime allowance will leave many savers facing higher tax bills, who may be looking for help in managing their financial affairs in a tax efficient way.

"I'm not a fan of the lifetime allowance as it sends the wrong signal for savers encouraged to do the right thing, and penalises good investment growth. The current limit hardly secures a king's ransom in retirement income, and there is a huge unfairness between how defined benefit (DB) and defined contribution (DC) benefits are measured against the LTA."

This, Tully added, re-ignited calls to scrap the LTA altogether, especially for DC schemes, in order to let "the annual allowance do its job to restrict the tax relief available on contributions".