Why Britain can’t ditch triple locked pensions – despite the alarming cost

The policy has hugely boosted pensioners' incomes – but its cost is increasing fast

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Rishi Sunak and his Chancellor Jeremy Hunt have committed to five more years of the costly triple lock system
Credit: Stefan Rousseau/Pool via REUTERS

Splashing the cash in Westminster was supposed to have gone out of fashion with Liz Truss.

Last year’s short-lived Prime Minister promised unlimited spending on energy bills combined with attractive tax cuts in a pledge to boost the economy – but unwittingly stoked a meltdown in financial markets instead.

It meant boring became the order of the day, as Rishi Sunak and Jeremy Hunt took over with higher taxes and restrained spending.

Labour followed suit, promising fiscal restraint and spiking their most adventurous policy, downgrading the pledge to spend £28bn per year on green investment, given the rising debt interest bill.

But all the vows to take tough decisions on the finances appear to have been forgotten.

Both parties have simultaneously committed to one very big spending plan: extending the triple lock pensions guarantee, meaning it is likely to last for an additional five-year parliament at least.

Mel Stride, the Pensions Secretary, said the Conservatives have a "particular duty to pensioners".

The Coalition-era policy increases pensions by the highest of inflation, average wage growth, or 2.5pc. Effectively it is a ratchet which makes sure the state pension over time rises faster than workers' pay.

Extending it beyond the next election means a five-year deal struck in 2010 is on track to be in force for at least two decades.

Has the triple lock done its job yet? And can the nation afford to keep on extending the scheme when the finances are under strain?

Steve Webb, who was pensions minister in the Coalition, says the policy was necessary at the time to increase incomes for struggling pensioners.

"Because the state pension was so low, it needed a defence mechanism," he says.

"For over 30 years the state pension had been pegged to prices. Wages grew a lot, so the pension had been falling in value relative to what people earned. If you moved from a wage before retirement to a pension after, that drop was getting bigger and bigger."

The policy certainly worked in terms of closing that gap. Back in 2010, the standard state pension for a single person was £97.65 per week. Now the basic pension is £156.20, an increase of 60pc.

By contrast, average weekly earnings for workers have risen from £442 per week to £648, an increase of 46.6pc.

In terms of spending power, consumer prices are up 46.1pc. It means the average worker is no better off than in 2010, but the state pension goes significantly further in the shops.

At a time of booming inflation, particularly with basics such as domestic energy bills and food costs soaring, the triple lock has helped spare the vulnerable elderly from the worst this year.

Alfie Stirling, chief economist at the Joseph Rowntree Foundation, says "it has been highly effective in lifting pensioners out of poverty. It is a very successful and important part of the welfare state apparatus".

So much for the effect. What about the cost? The state pension cost £104.3bn in 2021-22, according to the OBR. By 2026-27, it will cost £147.3bn, a rise of 41pc, because of both the triple lock ratchet and a rise in the number of pensioners.

By contrast, the Government's revenues – largely from taxes – are expected to rise by only 29pc over the same period, to £1.18 trillion.

It means one pound in every eight that the Government takes will soon be spent on the state pension.

All of this comes at a time of rising strain in the finances.

The national debt has grown to the same size as GDP, and the Government is expected to borrow around £130bn this year alone.

Pressure is mounting with demands to spend more on the NHS and social care, increase wages for public sector employees, beef up the armed forces and cut taxes.

Carl Emmerson, of the Institute for Fiscal Studies, says that overall the triple lock has "delivered a bigger boost to pensioner incomes at a bigger cost to the Government than we would have said back in 2010."

"Over the very long term it is mathematically a fact that it is unsustainable, because you cannot have something that grows faster than earnings on average forevermore," he says.

"At some point we have to get rid of the triple lock, the only question is when do we want to do it?"

Stirling says the Government can afford to keep the policy for now, which is particularly important when pensioners have been hammered by rising energy bills, food prices and other essential costs.

He also backs extra support for pension credit and housing benefit to help the poorest retirees.

Webb, now at consultancy LCP, says there is no rush.

"The point was to try to undo the damage of 30 years [of inflation linking]. You can argue you do not undo the damage in 10 or 15 years," he says.

"The natural end would be when the state pension has reached an agreed share of average wages".

After that, a double lock might make more sense, increasing pensions more closely in line with the typical wage.

By contrast, David Willetts, a former minister and now chairman of the Resolution Foundation, says the Government can declare victory with the triple lock and move to an earnings link.

“The triple lock’s work has been done. Given money is tight, for any given benefits budget there comes a point where you have to say, have we got a fair balance between the amount we spend on benefits for pensioners, and the amount for families?” says Lord Willetts.

The Resolution Foundation think tank estimates that the poorest 20pc of pensioners have a higher income than the poorest 20pc of non-pensioners, he says.

Alternatively, if the triple lock is kept, one solution to the cost may be to further increase the pension age, Lord Willetts says, limiting the total bill while increasing payments to recipients.

The age has risen from 60 for women at 65 for men to 66 for both and will go to 67 later this decade, with an increase to 68 also pencilled in.

However, this has risks.

Ros Altmann, a former pensions minister, fears that pushing up the pension age to fund the triple lock “prioritises the wrong people”.

Wealthier pensioners live longer, and so benefit the most, while the poor – typically with a lower life expectancy – miss out on years of payments.

“Some will die before they get anything, the higher you push the age,” says Baroness Altmann, suggesting moving to a double lock while focusing support on those who are poorer or in ill health, for instance by allowing them to take a pension at a reduced rate before the usual age.

The triple lock “is a political totemic signal,” she says.

“It is a short-hand, lazy way of saying we want to help pensioners, but actually you are not helping those who need the most help”.

Perhaps it will take another round of borrowing market chaos before ministers are prepared to contemplate reform.