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State Pension triple lock

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The State Pension for people who reached State Pension age (SPA) before 6 April 2016 has two tiers:

- the basic State Pension (bSP) - based on a person's National Insurance contribution record; and
- the additional State Pension - which is partly earnings-related.

A new State Pension (nSP) was introduced for future pensioners from 6 April 2016.

For the bSP and nSP, there is a statutory requirement to uprate every year at least in line with earnings. **The triple lock is a government commitment, over and above this, to uprate by the highest of earnings, prices or 2.5%**.

Different uprating arrangements apply to the other parts of the State Pension – such as the additional State Pension and the additional amounts earned by deferring a claim to the State Pension.

The introduction of the triple lock was announced by the Coalition Government in its first Budget after the 2010 election:

> **1.107** In the last Parliament, the basic State Pension was uprated by the higher of prices or 2.5 per cent. **This Government will uprate the basic State Pension by a triple guarantee of earnings, prices or 2.5 per cent, whichever is highest, from April 2011.** CPI will be used as the measure of prices in the triple guarantee, as for other benefits and tax credits. However, to ensure the value of a basic State Pension is at least as generous as under the previous uprating rules, **the Government will increase the basic State Pension in April 2011 by at least the equivalent of RPI**. (HM Treasury, Budget 2010, June 2010).

The Conservative Government continued the policy after the 2015 election and "no change to the Pensions Triple Lock" formed part of the agreement between the Conservative and Democratic Unionist Parties after the 2017 election.

The Conservative Party manifesto for the 2019 general election included a commitment to keep the triple lock. On 13 February 2020, Leader of the House, Jacob Rees-Mogg said the triple lock was "being maintained." However, on 2 June 2020, Pensions Minister Guy Opperman said that "given the unprecedented economic context and the challenges facing the UK economy" due to the Covid-19 outbreak, the Government would "take stock of the economy and public finances as we exit the current crisis and make the right decisions at that point."

Arguments for and against the policy since its introduction have centred around questions of cost and intergenerational fairness.

1. What is the triple lock?

The State Pension for people who reached State Pension age (SPA) before 6 April 2016 has two main elements:

- the basic State Pension (bSP) - based on a person's National Insurance contribution record; and
- the additional State Pension - which is partly earnings-related.[1]

A new State Pension (nSP) was introduced from 6 April 2016 for people reaching SPA from that date.[2]

The statutory requirement is to uprate the bSP and nSP every year at least in line with earnings.[3] The 'triple lock' is a Government commitment over and above this statutory requirement, to uprate the bSP and nSP by the highest of earnings, prices or 2.5%. It does not apply to other elements of the State Pension – such as the State Second Pension or 'deferred retirement increments' (extra amounts earned by deferring a claim for the State Pension).[4]

The measure of prices used for the triple lock is the Consumer Prices Index (CPI), although in 2011 the Retail Prices Index (RPI) was used. This was necessary in that year to ensure that the value of the basic State Pension was at least as generous as under the previous uprating rules.[5]

As regards earnings, legislation allows the Secretary of State for Work and Pensions to estimate the annual change in the "general level of earnings in such manner as he thinks fit."[6] Although the Coalition did not initially specify what measure of earnings would be used in the triple lock, it confirmed in December 2012 that it had used the increase in average weekly earnings to July, and this measure has continued to be used since then.[7]

1 *Social Security Contributions and Benefits Act 1992*, Part 1
2 *Pensions Act 2014*, Part 1
3 *Social Security Administration Act 1992*, s150A; *Pensions Act 2014*, Sch 12 (19)).
4 *Social Security Administration Act 1992*, s150; Library briefing paper SN-05649 State Pension Uprating (December 2016)
5 HM Treasury, Budget 2010, HC 61, June 2010, para 1.107; HC Deb, 14 June 2010, c284
6 *Social Security Administration Act 1992*, s150A(8)
7 HC Deb, 6 December 2012, c1030 [Steve Webb]. See also Benefits Uprating 2020 (April 2020)

2. What are its origins?

The triple lock was introduced by the Coalition Government in June 2010. However, its roots are in earlier developments – in particular the link with earnings under Labour in the 1970s which was subsequently broken by the Conservative Government in the early 1980s.

- **1970s – 1990s -** A statutory duty to increase state pensions in line with prices was first introduced in April 1973.[8] However, the Labour Government elected in February 1974 introduced legislation requiring long-term benefits to be increased in line with earnings or prices, whichever was higher.[9] The Conservative Government elected in 1979 pronounced this "unsustainable" and argued that what really mattered was "the guarantee against rising prices."[10] It therefore legislated to link long-term benefit increases (including the state pension) to prices rather than earnings.[11]
- **1997 – 2005 -** The Labour Government elected in 1997 resisted calls to restore the earnings link for some years, preferring to concentrate resources on the poorest pensioners through Pension Credit.[12] However, low price inflation (1.1%) in the year to September 1999 led to an increase of only 75p in April 2000. The hostile public response to what was seen as a derisory increase persuaded the then Chancellor, Gordon Brown, to announce that there should be a more meaningful minimum increase.[13] From 2002 onwards, the Labour Government was committed to uprating the basic State Pension by the higher of 2.5 per cent and inflation.[14]
- **2005 – 2010 -** In 2005, the Pensions Commission chaired by Lord Turner of Ecchinswell recommended that the earnings link should be restored to "stop the spread of means-testing which would occur if present indexation arrangements were continued indefinitely."[15] The Labour Government said it would restore the earnings link, probably from 2012, so that the State Pension could provide a better platform for private saving.[16] The *Pensions Act*

8 *Social Security Act 1973,* s39
9 National Insurance Act 1974, section 5; Social Security Act 1975, section 125
10 HC Deb 13 June 1979, c 439
11 *Social Security Act 1980,* s1
12 HC Deb 1 April 2003 c677W [Ian McCartney]
13 See, e.g., "Paltry 75p a week rise is an insult to all pensioners", *Sunday Express*, 23 April 2000, and "Pensions war hots up over 75p a week rise", *Sunday Mirror*, 9 April 2000; HC Deb 8 November 2000, c 326
14 HC Deb, 27 November 2001, cc836-7; HC Deb, 15 June 2005, 441W; Pre Budget Report 2009, para 5.43
15 Pensions Commission, A New Pension Settlement for the Twenty-First Century, Second Report, November 2005, Executive summary, page 10-12. See also SN 03111 Pension contribution conditions and SN 02234 State Pension age - background (7 February 2013)
16 DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006, para 3.24

2007 provided for the earnings link to be restored.[17] It was brought into effect from April 2011.[18]

- **2010 onwards -** The restoration of the earnings link was supported by both opposition parties when the legislation was before Parliament.[19] In its election manifesto, the Conservative Party said it would restore the earnings link.[20] The Liberal Democrats said they would uprate the state pension annually by "whichever is the higher of growth in earnings, growth in prices or 2.5 per cent."[21]

In its Programme for Government following the 2010 General Election, the Coalition Government said it would:

> […] restore the earnings link for the basic state pension from April 2011 with a "triple guarantee" that pensions are raised by the higher of earnings, prices or 2.5%, as proposed by the Liberal Democrats.[22]

The Coalition Government later legislated to introduce a new State Pension for future pensioners from 6 April 2016.[23] Its modelling for this assumed that the triple lock would apply but that a decision would be made closer to implementation.[24] The then Pensions Minister Steve Webb described it as an integral part of the reforms:

> Rising state pension ages, abolishing earnings-related state pensions and the triple lock are the three elements. You cannot in future build up a state pension of £170, £180 or £190. That is gone. You cannot retire at 60 or 63 or whatever; that is going. So the deal now is a lousy pension at 60, which is where we started, or a decent, properly indexed pension at 67, 68 or 69, taken as a package. All the costings into the middle of the century are done on the basis of the triple lock running for a long period of time, and it still is a lot cheaper, the reformed system, than the one that would otherwise have been in place.[25]

Following the 2015 general election, the new Government said it would maintain the triple lock on the State Pension.[26] It later confirmed that this would apply to the new State Pension as well as the basic State Pension.[27]

For more detail, see Library Briefing Paper State Pension Uprating - background (July 2010).

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17 Section 5; DWP, Security in retirement: towards a new pensions system, CM 6841, 25 May 2006, para 3.21-4;
18 HL Deb 14 March 2011 c75; SI 2010/2650; Social Security Benefits Uprating Order 2011 – Explanatory Memorandum, para 7.4
19 HC Deb, 16 January 2007, c672 [Philip Hammond] and c687 [David Laws]. The debates on the Bill are covered in more detail in Library Standard Note SN 4295 Pensions Bill 2006-07 – debates in Parliament [intranet only]
20 Conservative Party Manifesto 2010 – An invitation to join the Government of Britain
21 Liberal Democrat Manifesto 2010
22 The Coalition: Our Programme for Government, May 2010
23 *Pensions Act 2014*
24 DWP, The single-tier pension: a simple foundation for saving, January 2013, Cm 8528, p12
25 Evidence to the Work and Pensions Committee 2 March 2016 Q3
26 HM Treasury, Summer Budget 2015, 8 July 2015, HC 264 para 1.139
27 See, for example, HL Deb 28 April 2016 c1235

3. What effect has it had?

The triple lock came into effect in 2011/12, having been announced at June Budget 2010. However, in April 2011 the Coalition Government chose to uprate in-line with RPI inflation. This was because the basic State Pension had previously been uprated by RPI and, for purposes of uprating that year, RPI was higher than any of the measures to apply under the triple lock guarantee (that is, higher than average earnings growth, CPI inflation or 2.5%).[28] This means that the first year in which the triple lock was actually used to determine State Pension increases was 2012/13.

The table below compares the effect of the triple lock guarantee with CPI inflation, RPI inflation and average earnings growth, each year to 2020/21. Since 2012/13 the three benchmarks of the triple lock mechanism (average earnings growth, CPI inflation and 2.5%) have each been used three times.

CPI and RPI

The Consumer Prices Index (CPI) replaced the Retail Prices Index (RPI) from 2011 as the Government's preferred measure of inflation for benefit and tax uprating purposes. RPI has since lost its designation as a National Statistic.

State Pension triple lock: uprating factors used in each financial year

Setting State Pension amounts in financial year:	**Triple lock**		Reference indices for triple lock		*Memo:*
	Factor	based on:	Consumer Prices Index (CPI) inflation	Average earnings	*Retail Prices Index (RPI) inflation (b)*
2011/12	(a)		+3.1%	+1.3%	*+4.6%*
2012/13	**+5.2%**	CPI	**+5.2%**	+2.8%	*+5.6%*
2013/14	**+2.5%**	2.5%	+2.2%	+1.6%	*+2.6%*
2014/15	**+2.7%**	CPI	**+2.7%**	+1.2%	*+3.2%*
2015/16	**+2.5%**	2.5%	+1.2%	+0.6%	*+2.3%*
2016/17	**+2.9%**	Earnings	-0.1%	**+2.9%**	*+0.8%*
2017/18	**+2.5%**	2.5%	+1.0%	+2.4%	*+2.0%*
2018/19	**+3.0%**	CPI	**+3.0%**	+2.2%	*+3.9%*
2019/20	**+2.6%**	Earnings	+2.4%	**+2.6%**	*+3.3%*
2020/21	**+3.9%**	Earnings	+1.7%	**+3.9%**	*+2.4%*

Notes

(a) State Pension amounts for 2011/12 were raised by 4.6%, in line with RPI.

(b) Retail Prices Index (RPI) inflation was the previous basis for State Pension indexation (before the triple lock). It is not part of the triple lock calculation and no longer carries National Statistics designation, but is shown here for reference.

Sources:

CPI inflation: ONS series D7G7, CPI annual rate (values for preceding September)

Average earnings: ONS series KAC3, Average weekly earnings (AWE) whole economy year-on-year three-month average growth (values for preceding July)

RPI inflation: ONS series CZBH, RPI annual rate (values for preceding September)

As triple lock indexation rises each year by the highest of three factors, it is structurally more generous than each of its individual components, and this effect compounds over time. The full basic State Pension for an individual in 2020/21 is £134.25 per week, which is:

[28] HM Treasury, Budget 2010, HC 61, June 2010, para 1.107

- **8.6% higher** than if it had been **CPI-indexed** since 2011/12 (£123.60 in 2020/21, a difference of £10.65 per week);
- **7.6% higher** than if it had been **earnings-linked** since 2011/12 (£124.75 in 2020/21, a difference of £9.50 per week)
- **1.7% higher** than if it had been **'double-locked'** in line with the higher of earnings or CPI, without the 2.5% minimum increase (£131.95 in 2020/21, a difference of £2.30 per week)

Basic State Pension: triple-lock increases and alternative scenarios

All figures £ per week, nominal terms

Financial year	Actual value of basic State Pension (triple-locked)	Alternative uprating scenarios from 2012/13 onwards: Consumer Prices Index (CPI) inflation	Earnings link	Double lock (higher of CPI or earnings)
2011/12	102.15	102.15	102.15	102.15
2012/13	107.45	107.45	105.00	107.45
2013/14	110.15	109.80	106.70	109.80
2014/15	113.10	112.75	108.00	112.75
2015/16	115.95	114.10	108.65	114.10
2016/17	119.30	114.10	111.80	117.40
2017/18	122.30	115.25	114.50	120.20
2018/19	125.95	118.70	117.00	123.80
2019/20	129.20	121.55	120.05	127.00
2020/21	134.25	123.60	124.75	131.95
Difference vs triple lock in 2020/21		*-10.65*	*-9.50*	*-2.30*

Source: HoC Library calculations. See Library briefing paper Benefits Uprating 2020 (CBP-8806) for historic basic State Pension rates.

Looking instead at the change in the value of the basic State Pension since 2010/11 (that is, including the effect of the 4.6% RPI-based increase in 2011/12), the basic State Pension in 2020/21 is around £13.45 a week (£700 per year) higher than if it had been uprated by earnings over this period.[29]

Further information

See Library briefing paper *Benefits Uprating 2020* (CBP-8806) for more about increases in the basic and new State Pension.

Value in relation to earnings

Another way of assessing the impact of the triple lock is to look at the value of the State Pension relative to average earnings.

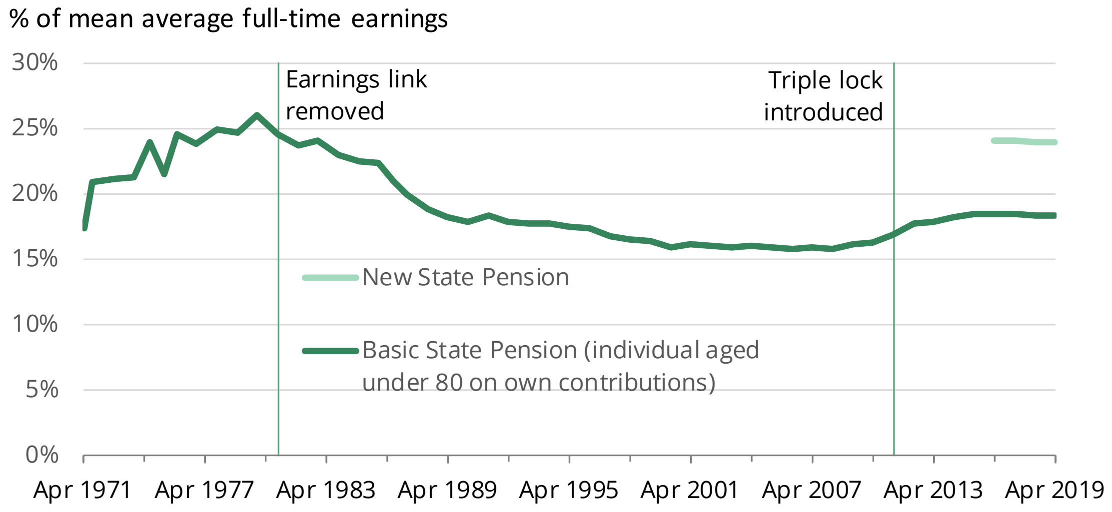
The basic State Pension declined relative to earnings after the link between State Pension uprating and average earnings was broken in 1980. However, in recent years the triple lock and the nSP have increased the value of the State Pension to a level not seen since the earnings link was removed.

[29] HoC Library calculations. See also Written question 47306 [State Retirement Pensions], answered 26 May 2020. The Minister for Pensions Guy Opperman said: "Since 2010, the full yearly amount of the basic State Pension in 2020/21 is around £700 higher than if it had just been up-rated by earnings since April 2010. That's a rise of over £1,900 in cash terms."

The chart below shows the value of the full bSP and nSP as a percentage of average full-time earnings (for the UK).

Because earnings have historically tended to increase by more than prices each year, the value of the bSP declined relative to average earnings after the uprating link with earnings was broken in 1980. The value of the bSP as a percentage of average full-time earnings fell from a peak of 26% in 1979 to around 16% between 2000 and 2008.

Basic and New State Pensions as a percentage of earnings



Source: DWP Abstract of DWP benefit rate statistics 2019

Following the introduction of the triple lock, the value of the bSP rose to over 18% of average full-time earnings by 2014, where it has remained. The new State Pension has been worth just over 24% of average full-time earnings since its introduction in 2016.

Examining the early impact of the triple lock and nSP, the House of Commons Work and Pensions Select Committee report on *Intergenerational Fairness* (November 2016) concluded that:

> The triple lock, allied to the introduction of the flat rate new state pension, has succeeded in increasing the value of the headline state pension relative to average earnings to a level not seen since the original earnings link was removed in 1980. Low rates of earnings growth following the 2008–09 recession mean this process has occurred faster than was expected. Provided the new state pension is maintained at this proportion of earnings the work of the triple lock, to secure a decent minimum income for people in retirement to underpin private saving, will have been achieved.[30]

Pensioner incomes and poverty

Since the introduction of the triple lock, the Government has ensured that the cash value of triple-lock increases in the basic State Pension is passed through to recipients of Pension Credit Guarantee Credit, which

30 Work and Pensions Select Committee, Intergenerational fairness, November 2016

is the main form of means-tested support for low-income pensioner households.[31] The contribution of the triple lock and the Pension Credit 'pass-through' to lessening pensioner poverty over this period is however unclear.

The percentage of pensioners living in households with net disposable income below 60% of the national median after housing costs, a widely used benchmark of relative low income, has risen from a historic low of 13% in 2011/12 to 16% in 2018/19. This followed a period of over a decade when this measure had been trending downwards – from a high of 29% in 1998/99. Using the corresponding measure of absolute low income (relative to a 2011/12 real-terms income baseline), 14% of pensioners were in poverty in 2011/12 and 13% in 2018/19. [32] There has been a decline in the number of pensioners living in 'material deprivation' over this period – from 8% to 6%.[33]

Further information

See the Library's briefing on *Poverty in the UK: statistics* for more on levels of poverty among pensioners and the wider population.

The median net income of pensioner households after housing costs rose by 6% in real terms between 2011/12 and 2018/19, from £303 per week to £320 per week (both figures in 2018/19 prices). This constituted a slower rate of trend growth in real incomes among pensioner households than was seen over the preceding two decades.[34]

3.1 How much does it cost?

The Office for Budget Responsibility (OBR) estimated in 2015 that the annual cost of the triple lock compared with a simple earnings link had reached around £2.9 billion by 2014/15.[35] This was £2.4 billion more than the Government originally forecast when introducing the policy in 2010,[36] and £1.4 billion more than the Government's revised forecast for that year in the 2011 Budget.[37]

At the time of the March 2020 Budget the DWP forecast that total State Pension expenditure in 2020/21 would be **£101.7 billion**.[38] Based on this forecast, we estimate that total State Pension expenditure this year would have been:

- **£96.1 billion** – £5.6 billion (5.5%) less – if the triple-locked components of State Pension expenditure had instead been uprated **in line with earnings** since 2011/12
- **£100.5 billion** – £1.2 billion (1.2%) less – if triple-locked expenditure had instead been '**double-locked**', using the higher of earnings or prices but not incorporating a 2.5% minimum increase, since 2011/12.

31 See the Library briefing *Benefits Uprating 2020* (CBP-8806), section 2.3
32 DWP Households below average income: 1994/95 to 2018/19, Mar 2020, table 6a.
33 DWP Households below average income: 1994/95 to 2018/19, Mar 2020, table 6c.
34 DWP Pensioners' incomes series: financial year 2018 to 2019, March 2020, page 3 and table 2.1
35 OBR Welfare Trends Report June 2015, page 50, para 2.62
36 HM Treasury, Budget June 2010, page 41, table 2.1, line 48. Originally forecast annual cost of triple lock by 2014/15: £450 million.
37 HM Treasury, Budget 2011, page 45, table 2.2, line bd. Forecast cost in 2014/15: £1.53 billion.
38 DWP Benefit Expenditure and Caseload Tables 2020, Spring Budget 2020 edition, State Pension table.

4. Will it survive?

Successive governments have committed to the triple lock. In Autumn Statement 2016, Chancellor of the Exchequer Philip Hammond confirmed the Government's commitment to the triple lock for the rest of the Parliament:

> I can confirm today that, despite the fiscal pressures, we will […] meet our pledge to our country's pensioners through the triple lock. But as we look ahead to the next Parliament, we will need to ensure that we tackle the challenges of rising longevity and fiscal sustainability, so the Government will review public spending priorities and other commitments for the next Parliament in light of the evolving fiscal position at the next spending review.[39]

Opposition parties also expressed their commitment to the triple lock.[40]

In its manifesto for the 2017 general election, the Conservative Party said it would maintain the triple lock until 2020, then replace it with a double lock. Most of the other main parties pledged to maintain it.[41] The 26 June 2017 agreement between the Conservative and Democratic Unionist Parties said both parties had agreed that there would be "no change to Pensions Triple Lock."[42]

The current Parliament

There was cross-party support for the triple lock in manifestos for the 2019 general election.[43] The Conservative Party's manifesto said:

> We will keep the triple lock, the winter fuel payment, the older person's bus pass and other pensioner benefits, ensuring that older people have the security and dignity they deserve. We recognise the value of free TV licences for over-75s and believe they should be funded by the BBC.[44]

This was confirmed by Work and Pensions Minister Will Quince in debate on the 2020 Social Security Uprating Order:

> To reiterate, this Government are increasing the basic state pension and the new state pension in line with the triple lock.[45]

And on 13 February, Leader of the House, Jacob Rees-Mogg said:

> More than £120 billion will be spent on benefits for pensioners, £99 billion of which will be on the state pension in 2019-20. The triple lock is being maintained and the warm home discount

39 HC Deb 23 November 2016 c906; See also HL Deb 28 April 2016 c1235 [Ros Altmann]
40 HC Deb 29 November 2016 c1393 [Rebecca Long Bailey]; HC Deb 30 November 2016 c1586 [Ian Blackford]
41 Conservative manifesto 2017; DUP Manifesto for the 2017 Westminster election; The Labour Party Manifesto 2017;
42 The agreement is to remain in place for the length of the Parliament and can be reviewed by the mutual consent of both parties
43 Labour Party election manifesto 2019; Liberal Democrat election manifesto 2019/our plan to build a fair society/support for pensioners; Labour; Lib Dems, SNP general election manifesto 2019/fair pensions; DUP election manifesto 2019; Liberal Democrat Manifesto 2017; SNP manifesto 2017
44 Our Plan - Conservative Party election manifesto 2019
45 HC Deb 10 Feb 2020 c671

> scheme is being introduced and extended. So every effort is being made to help pensioners and I encourage hon. Members to persuade pensioners in their constituencies to claim what is their due.[46]

4.1 The post-coronavirus outlook

The economic disruption caused by the coronavirus outbreak has the potential to exacerbate the divergence between State Pension increases and underlying trends in earnings growth and inflation.

If earnings fall this year, followed by a rebound in 2021, the triple-lock mechanism will produce a large step-increase in the value of the State Pension relative to earnings and prices in April 2022, depending on the size of the earnings rebound. The 2.5% minimum increase protects the value of the State Pension in 2021/22 from being affected by falling earnings (and/or low inflation) during the economic downturn in 2020, while the earnings-link component allows the State Pension to benefit fully from any subsequent rise in earnings.

According to a recent *Times* report, internal government figures indicate that the effect of this could be to increase State Pension expenditure by between £12 billion and £20 billion in 2022/23.[47]

On 2 June 2020, the Minister for Pensions, Guy Opperman, said in response to a question about the future of the triple lock that the Government would take stock of the economy and public finances as it exited the COVID-19 crisis and that it was premature to speculate:

> We are thinking first and foremost about protecting people's health, their jobs and supporting businesses. The Office of Budget Responsibility and the Bank of England have said if we did not do what we are doing today the costs in the future would be far higher. As with all aspects of Government policy, we will keep tax rates and spending under review, and any decisions on future changes will be taken as part of the annual Budget process in the context of the wider public finances.[48]

The statistical treatment of the support provided to furloughed employees through the Coronavirus Job Retention Scheme (CJRS) is set to exert a major indirect influence on the future level of the State Pension. The CJRS currently provides employers with financial support up to 80% of salary, up to a maximum of £2,500 per month per employee. By the end of May 2020 around 8.7 million jobs had been supported through the scheme, with claims totalling £17.5 billion.[49]

In its initial coronavirus reference scenario, the OBR had treated CJRS support as a transfer payment from government to households, serving as a substitute for employment earnings. This would have implied a major fall in the statistical measure of average earnings, followed by a large rebound during the subsequent economic recovery. The Office for

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46 HC Deb 13 Feb 2020 c997
47 '*Boris Johnson prepares to end £20bn triple lock pledge to pensioners*', The Times, June 17 2020
48 PQ49780, 2 June 2020
49 HMRC Coronavirus Job Retention Scheme statistics: June 2020

National Statistics (ONS) subsequently decided however that earnings supported by the CJRS during the coronavirus period should continue to be treated as earnings for statistical purposes. This implies that the statistical measure of earnings will undergo less volatility than was initially envisaged by the OBR.[50] The key average earnings index registered a 0.9% year-on-year decline in April 2020.[51] This compares with an assumed 7.3% fall in average earnings in 2020 in the OBR's initial assessment.[52]

The relevant earnings benchmark for the triple-lock uprating of the State Pension in April 2021 is the year-on-year change in the Average Weekly Earnings index for the three months to July 2020.[53] This figure is scheduled to be published on 15 September 2020.[54]

Long-term projections

The OBR's 2018 Fiscal Sustainability Report projected that State Pension expenditure would rise from 5% of GDP in 2027/28 to 6.9% of GDP in 2067/68, 1.0 percentage points higher than if the State Pension were simply linked to earnings over this period (5.9% of GDP in 2067/68) and 0.3 percentage points higher than if a double-lock of earnings or prices were used instead (6.6%).[55]

The prospects for State Pension expenditure in the medium to long term have however been thrown into uncertainty by the coronavirus outbreak. The OBR has announced that it will publish a fresh Fiscal Sustainability Report on Tuesday 14 July, containing an assessment of the impact of the coronavirus outbreak on fiscal sustainability.[56]

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50 OBR Commentary on the Public Sector Finances: May 2020, 19 June 2020, para 7
51 ONS dataset KAB9: Average Weekly Earnings (AWE) whole economy seasonally adjusted total pay excluding arrears
52 OBR Coronavirus reference scenario, 14 April 2020, table 1.3
53 ONS dataset KAC3: Average Weekly Earnings (AWE) whole economy year on year three month average growth (%): seasonally adjusted total pay excluding arrears.
54 As part of the ONS UK labour market: September 2020 release.
55 OBR Fiscal sustainability report July 2018, 17 July 2018, chart 3.14
56 Fiscal sustainability report 2020, OBR news release, 19 June 2020.

5. Should it survive?

The arguments for and against the triple lock relate to issues of sustainability and intergenerational fairness.

Critics argue that the triple lock is unfair on the basis that:

- Older adults are currently experiencing higher standards of living than younger people can expect to enjoy when they reach older ages, and that it is unfair to expect younger people to subsidise a higher income for older people through the triple lock.
- Many working age benefits are being frozen or uprated by CPI, and therefore it is not "fair" for only one portion of society to have their benefits uprated by a more generous index.[57]

In evidence to the Work and Pensions Committee in 2016, for example, the Institute for Fiscal Studies said:

> One element of current policy that is not sustainable indefinitely is the 'triple lock'. Since the state pension rises in line with the highest of earnings or prices (or 2.5%) in each year, it will rise faster than either earnings or prices over time, and so take up an increasing share of national income. There are better ways to ensure the state pension rises in line with earnings over the long run but never falls in real terms (if that is the objective).[58]

The Committee concluded that:

> 54.The triple lock is inherently unsustainable. In the absence of reform the state pension would inevitably grow at a faster rate than the rewards of work and would account for an ever-greater share of national income. In particular, we find no objective justification for the 2.5 per cent minimum increase.[59]

On the other hand, a range of organisations argue that the policy is important in maintaining the value of the State Pension for younger people:

> Millions of future pensioners are also likely to have less generous defined contribution occupational pensions and a rising State Pension Age of 67 and beyond. The importance of a decent living state pension will therefore be even more important for this generation than for their parents and grandparents, but reducing it by removing the triple lock will make this almost impossible to achieve (National Pensioners' Convention, Triple lock campaign briefing, January 2017).
>
> The triple lock on the basic State Pension ensures that at least one element of retirement income maintains its value, and unless it is continued there is an increased risk that future pensioners will not achieve adequate retirement incomes. (Age UK evidence to Work and Pensions Select Committee inquiry on Intergenerational Fairness, February 2016).
>
> 4.1 It is important to note that the primary beneficiaries of the triple lock on pensions are not current pensioners. By ensuring that pensions rise at either the highest rate of inflation, income growth or 2.5per cent, the triple lock is a step towards ensuring

57 PPI, How will the removal of the State Pension lock affect adequacy?, March 2018
58 Institute for Fiscal Studies evidence to the Work and Pensions Committee (IGF0023, Feb 2016)
59 Work and Pensions Committee, Intergenerational fairness, HC 59, November 2016

> that pensions will continue to provide a basic quality of life for younger cohorts (or future pensioners) for whom annual inflation poses the greatest risk to the value of their pensions. (TUC, Evidence to the Work and Pensions Committee, February 2016).
>
> From a gender equality perspective we would argue that both state pension income and welfare spending should be protected. So rather than removing the triple lock for state pensions, we should ensure that income across the generations are protected. (Fawcett Society, Evidence to Work and Pensions Committee, February 2016).

Analysis by the Pensions Policy Institute in 2018 showed that the triple lock would increase the incomes of future pensioners (as well as today's) and make it easier for them to achieve adequate retirement incomes by reducing the amount they needed to save privately. For example:

> Under a triple locked pension, a low earning woman (30th percentile), contributing from age 22, would need to save 1.3% (£250pa) of salary per year on average to achieve the Minimum Income Standard with £10,000pa:
>
> - Under a double lock [the higher of earnings or prices], she would need to contribute around 1.8% in total (£100pa extra), and
> - Under an earnings link, she would need to double her rate of saving to around 2.6% in total (£270pa extra) of salary per year on average.
>
> In order to save enough to replicate working life living standards in retirement, she would need to save around 4.3% per year (£860pa) on average under a triple lock,
>
> - Around 4.8% total (£110pa extra) under a double lock, and
> - Around 5.6% total (£270pa extra) under an earnings link.

It found that the proportion of earnings that those with higher incomes needed to contribute to a private pension was less affected by changes in indexation than it was for low earners who are more dependent on State Pensions and benefits.[60]

60 Pensions Policy Institute, How would the removal of the triple lock affect pension adequacy, March 2018, Executive Summary

6. What are the options?

Expenditure on the State Pension can be controlled in different ways - by changing the uprating arrangements and/or increasing the State Pension age (SPA). As the Work and Pensions Select Committee pointed out in its November 2016, there are trade-offs. It did not think the Government should rely solely on the SPA:

> The cost of a more generous state pension can be offset by restricting its availability to fewer people. Increases in the state pension age, however, disproportionately affect younger people. They also risk further skewing receipt of the state pension towards people in areas of the country, and socio-economic groups, in which life expectancy is high. People with low life expectancies, who may have been disadvantaged in their early years and working lives, would be further disadvantaged in their later years. We do not doubt that further increases in the state pension age will be required as welcome increases in life expectancy continue. They should not, however, be the sole means of ensuring the long-term affordability of the state pension.[61]

In his review of the State Pension age (SPA) in 2017, John Cridland recommended that it should increase to 68 over the period 2037 and 2039. He said that if further savings were needed, these should be made by withdrawing the triple lock:

> We commit to a universal State Pension age across the UK which should increase to reflect changes in life expectancy. To this end, we recommend:
>
> • State Pension age should rise to age 68 over a two year period starting in 2037 and ending in 2039;
>
> • State Pension age should not increase more than one year in any ten year period, assuming that there are no exceptional changes to the data.
>
> **Triple lock**
>
> If further savings are needed to ensure fiscal sustainability, they are more appropriately delivered by moving in the future to uprating the pension by earnings. We recommend that the triple lock is withdrawn in the next Parliament. Under our recommended timetable, State Pension spending would be 6.7% of GDP in 2066/67, which is a reduction of 0.3% compared to the principal OBR projection. If the triple lock is withdrawn, spending will be further reduced to 5.9% of GDP by 2066/67.
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61 Ibid, para 60

62 Independent Review of the State Pension age, Smoothing the transition: Final report, March 2017

The Government has said it will adopt Cridland's proposed timetable, subject to a further review to take account of more recent life expectancy projections and to evaluate the effects of current rises in State Pension age.[63]

In its response to the House of Lords Intergenerational Fairness Committee in July 2019, the Government said that the triple lock should not be looked at in isolation:

> 1.79 The Triple Lock should not be looked at in isolation. The Government has implemented other pension reform measures which seek to ensure fairness between the generations. As well as the Triple Lock, this Government has successfully introduced the new State Pension which improves State Pension incomes for many lower earners and women; whilst putting the State Pensions system on a sustainable footing.

Its proposed timetable for future increases in the State Pension age would help ensure fairness and sustainability:

> It is fair that each generation should enjoy a roughly similar proportion of life spent in state supported retirement. A policy which allows each generation to spend an increasing percentage of life over State Pension age financed by an increased level of public pension expenditure will be unsustainable in the long run and unfair to subsequent generations. Together these reforms show how we are working to protect pensioner incomes whilst tackling the challenges of both rising longevity and fiscal sustainability.[64]

Alternative uprating arrangements

A 'double lock' – the highest of earnings and prices – is sometimes proposed as an alternative.

However, the IFS argues that this would not eliminate the 'ratchet effect': "the state pension would still rise faster than both earnings and prices in the long run, and would still eventually become unaffordable."[65] In its analysis for the 2015 election, it proposed a 'smoothed earnings link':

> If, instead, the government wants to protect pensioners from real-terms reductions in the state pension when earnings fall, by increasing the pension by more than earnings in such circumstances, but does not want to increase the value of the state pension relative to earnings in the long term, a mechanism to 'claw back' above-earnings increases would need to be developed. One option would be to set a target for the level of the state pension relative to average earnings, and to cap increases in the state pension (e.g. at inflation) if the state pension was above that level. [66]

The Work and Pensions Select Committee recommended this approach:

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63 DWP, State Pension age review: final report, July 2017, p4; Library Briefing Paper CBP 6546 State Pension age review (August 2017)

64 House of Lords Intergenerational Fairness and Provision Committee, Tackling intergenerational fairness, Government response to the recommendations, July 2019, p14-15

65 A double lock on the State Pension would still be a bad idea, Andrew Hood, 2017

66 Benefit spending and reforms – the Coalition Government's record. IFS Election 2015 Briefing Note No 3, January 2015

> 68.We recommend the Government benchmark the new state pension and basic state pension at the levels relative to average full-time earnings they reach in 2020. The triple lock should then be replaced by an earnings link. In periods when earnings lag behind price inflation, an above-earnings increase should be applied to protect pensioners against a reduction in the purchasing power of their state pension. Price indexation should continue when real earnings growth resumes until the state pension reverts to its benchmark proportion of average earnings. Such a mechanism would enable pensioners to continue to share in the proceeds of economic growth, protect the state pension against inflation and ensure a firm foundation for private retirement saving. The new state pension and basic state pension it replaced would track average earnings growth in the long term. That is more fiscally sustainable and more intergenerationally fair.[67]

On 25 April 2019, the House of Lords Select Committee on Intergenerational Fairness and Provision recommended that the triple lock should be removed, and that the State Pension should be uprated in line with average earnings to ensure parity with working people but that there should also be "protection against any unusually high periods of inflation in the future."[68]

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67 Work and Pensions Committee, Intergenerational fairness, HC 59, November 2016
68 House of Lords Intergenerational Fairness and Provision Committee, Tackling intergenerational fairness, HL paper 329, April 2019

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