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Social Security (Uprating of Benefits) Bill 2019-21

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Summary

The *Social Security (Uprating of Benefits) Bill 186 2019-21* was published on 23 September 2020 and is scheduled to go through all its House of Commons stages on 1 October 2020.

Its purpose is to enable the uprating in 2021/22 of: the basic State Pension: the full rate of the new State Pension: the Standard Minimum Guarantee in Pension Credit: and, survivors' benefits in Industrial Death Benefit.

Without the Bill, it will probably not be possible to increase these benefit and pension rates next year. That is because the *Social Security Administration Act 1992*, which the Bill will amend, prevents the Secretary of State from bringing forward an Uprating Order where earnings growth is negative. Evidence from the Office for National Statistics (ONS) indicates that earnings fell by -1.0% year-on-year in the three months to July 2020 as a result of the pandemic. The ONS will confirm or amend this in its next release due on 13 October 2020.

The Government says that the Bill will allow it to meet the requirements of the 'triple lock': a commitment from the Government to increasing the state pension in line with wages, earnings, or 2.5%, whichever is higher. (Bill 186 2019-21-EN, paras 1-5).

The Bill will only amend the Act as it applies to a review of earnings conducted this year (Bill 186 2019-21-EN, para 23-25).

The amounts by which social security benefits and the State Pension will ultimately increase in April 2021 will be announced in November, in order to meet hard IT delivery deadlines (Bill 186 2019-21-EN, paras 1-5). The announcement will follow a review by the Secretary of State in mid-October based on inflation data for September and earnings data for the three months to July.

Further background can be found in the following Library Briefing Papers: Benefit uprating 2020 CBP 8806, April 2020; State Pension Uprating CBP 5649, April 2020; and State Pension triple lock, CBP 7812, June 2020.

1. Background

The *Social Security (Uprating of Benefits) Bill 2019-21* was published on 23 September 2020 and is scheduled to go through all its House of Commons Stages on 1 October.[1] It relates to the uprating in 2021/22 of the basic State Pension, the full amount of the new State Pension, the Standard Minimum Guarantee in Pension Credit and survivors' benefits in Industrial Death Benefit.[2]

1.1 The State Pension system

The State Pension for people who reached State Pension age before 6 April 2016, had two tiers: [3]

- the basic State Pension (BSP) – a contributory flat-rate benefit to which people built entitlement on the basis of their national insurance (NI) record, with 30 'qualifying years' needed for the full amount (£134.25 pw in 2020/21). A qualifying year is one in which a person has paid, been treated as having paid, or been credited with, enough NICs for it to count.[4] People with fewer qualifying years get a proportionate amount.[5]
- the additional State Pension – this depended on the earnings or deemed earnings during their working life since 1978. People accrued entitlement through the State Earnings Related Pension Scheme (SERPS) between 1978 and 2002 and the State Second Pension (S2P) from 2002 onwards.[6] It was possible to contract-out into a private pension scheme that met set requirements, in return for which the employee (and their employer) paid a lower rate of NI.[7]

A new State Pension was introduced from 6 April 2016 for people reaching State Pension age (SPA) from that date. People who had already reached SPA continue to get their pension under the 'old rules'.[8] The full rate of the new State Pension in 2020/21 is £175.20.

Other elements of the State Pension include 'deferred retirement increments' i.e. additional amounts to which people can build entitlement if they defer claiming beyond State Pension age.[9]

Pension Credit, the main means-tested benefit for pensioners, was introduced in October 2003, replacing income support for pensioners.[10]

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1 The title of the Bill is in fact the Social Security (Benefits Up-rating) Bill (hyphenated) but in this briefing we refer to Uprating, since the unhyphenated term is more commonly used

2 Industrial Death Benefit was a benefit for people whose spouse died as a result of an industrial accident or prescribed disease. It was abolished for deaths occurring after 1988 and no claims had been made for many years, but some widows or widowers continue to receive payments.

3 *Social Security Contributions and Benefits Act 1992,* s44

4 Ibid s122

5 Ibid s44 and Sch. 3

6 Ibid s44, 44A-C and 45

7 DWP, *A state pension for the 21st century,* Cm 8503, April 2011

8 *Pensions Act 2014*, s1

9 State Pension deferral, Commons Library Briefing Paper, CBP 2868, May 2020

10 *State Pension Credit Act 2002; State Pension Credit Regulations 2002 (SI 2002/1792)*

The Guarantee Credit element provides financial help for people who have reached State Pension age and whose income is below their 'appropriate amount'. It is made up of a Standard Minimum Guarantee (173.75 pw for a single person and £265.20 pw for a couple in 2020/21) and additional amounts for severe disability, caring responsibilities and liability for certain housing costs.[11]

For people who reached State Pension age before 6 April 2016, there is also a Savings Credit element, the aim of which is to reward people over 65 with modest levels of "qualifying income" (including state, occupational and personal pensions) above the Savings Credit "threshold", up to a maximum (of £13.97 for a single person and £15.62 for a couple in 2020/21.[12]

As discussed in section 2 below, different uprating arrangements apply to the different parts of the State Pension.

11 *State Pension Credit Act 2002*, s2
12 See Pension Credit: current issues, Commons Library Briefing Paper, CBP 8135, August 2020

2. Statistics

2.1 Caseloads

In February 2020 the DWP paid **State Pensions** to around 12.48 million people living in Great Britain or overseas. There were a further 298,000 people receiving State Pensions from the Department for Communities in Northern Ireland in June 2020. State Pensioners account for 17.4% of the population of Great Britain, and 15.7% of the population of Northern Ireland. The majority of State Pensioners (54%) are female.

State Pensioners by gender and country of residence

	Number of State Pensioners			State Pensioners as percentage of population by gender		
	Total (a)	Male	Female	Total	Male	Female
DWP, February 2020						
Total (b)	12,480,839	5,711,724	6,769,114	..	..	..
of whom: resident of:						
Great Britain	11,317,377	5,181,651	6,135,723	17.4%	16.2%	18.7%
England	9,705,572	4,448,410	5,257,160	17.2%	16.0%	18.5%
Wales	625,907	289,077	336,828	19.9%	18.6%	21.1%
Scotland	985,903	444,167	541,735	18.0%	16.7%	19.3%
Abroad	1,159,801	529,347	630,455	..	..	..
NI Dept for Communities, June 2020						
Northern Ireland	298,090	136,650	161,440	15.7%	14.7%	16.8%

Notes:
(a) Male/female split of DWP State Pensions may not sum exactly to total due to statistical disclosure control in the source data.
(b) Includes a small number with unknown country of residence.
Sources: DWP Stat-xplore and Department for Communities Benefit statistics summary

In February 2020 the DWP paid **Pension Credit** to 1.53 million claimants, of whom 1.29 million (84%) received the Guarantee Credit element of Pension Credit. Single claimants accounted for 83% of Guarantee Credit claimants.

There were a further 66,260 people receiving Pension Credit from the Department for Communities in Northern Ireland in May 2020, of whom 58,710 received the Guarantee Credit.

Pension Credit claimants by country of residence

	Total	Of whom: receiving Guarantee Credit		
		Total	Of whom: claim type (a)	
			Single person	Couple
DWP, February 2020				
Total (b)	1,532,519	1,291,873	1,073,675	218,199
of whom: resident of:				
Great Britain	1,531,937	1,291,340	1,073,194	218,141
England	1,295,491	1,094,187	907,289	186,896
Wales	93,112	78,439	63,935	14,501
Scotland	143,328	118,710	101,968	16,743
Abroad	241	201	168	25
NI Dept for Communities, May 2020				
Northern Ireland	66,260	58,710	47,160	11,550

Note

(a) Single/couple split of DWP Pension Credit Guarantee Credit claims may not sum exactly to total due to statistical disclosure control in the source data.

(b) Includes a small number with unknown country of residence.

Sources: DWP Stat-xplore and Department for Communities Benefit statistics summary

Industrial Death Benefit is received by approximately 3,000 people in Great Britain.[13]

2.2 Expenditure

The DWP is forecast to spend £101.7 billion on **State Pensions** in the current financial year (2020/21), of which £80.7 billion (79%) relates to the elements of State Pension that are uprated in line with the triple-lock. The remainder of State Pension expenditure (21%) is price-indexed in line with CPI.

The DWP's expenditure on **Pension Credit** in 2020/21 is forecast to be £5.3 billion, of which £4.9 billion (93%) is on the Guarantee Credit, the uprating of which is linked to annual earnings growth. The remainder (7%) is on the Savings Credit, which is not subject to a statutory earnings link.

[13] DWP Benefit expenditure and caseload tables, Spring Budget 2020 edition, industrial injuries benefits table

DWP expenditure on State Pension and Pension Credit
Great Britain, nominal terms

	State Pension		Pension Credit	
	Total	Of which: triple locked uprating applicable (a)	Total	Of which: Guarantee Credit
	£ million	£ million	£ million	£ million
2016/17	91,580	70,366	5,666	5,244
2017/18	93,800	72,729	5,368	4,973
2018/19	96,743	75,355	5,140	4,732
2019/20	98,811	77,382	5,130	4,739
2020/21 (forecast)	101,747	80,656	5,288	4,904

Notes:

(a) Comprises the basic State Pension, New State Pension and non-contributory category C State Pension. State Pensioners resident in certain foreign countries are not eligible to receive annual uprating.

Source: DWP Benefit expenditure and caseload tables, Spring Budget 2020 edition

Total expenditure on **Industrial Death Benefit** in Great Britain in 2020/21 is estimated to be only £20 million, reflecting the relatively small number of recipients.[14]

[14] DWP Benefit expenditure and caseload tables, Spring Budget 2020 edition, industrial injuries benefits table

3. Uprating policy

3.1 Legislation

Uprating is the annual mechanism by which "the Secretary of State is required by law to conduct a review of applicable benefit and pension rates each year to determine whether they have retained their value in relation to the general level of prices or earnings. Where the relevant benefit or pension rates have not retained their value, legislation provides that the Secretary of State is required to (or in some instances may) uprate their value."[15] Different statutory requirements apply to three benefits groups:

For background, see Benefits uprating 2020, Commons Library Briefing Paper CBP 8806, April 2020

- **Those that must rise at least in line with earnings:** these are the basic State Pension and the full rate of the new State Pension, the Standard Minimum Guarantee in Pension Credit and survivors' benefits in Industrial Death Benefit.
- **Those that must rise at least in line with prices:** the main benefits in this group are Personal Independence Payment, Disability Living Allowance, Attendance Allowance, Carer's Allowance and the Additional State Pension. Also included are deferred retirement increments (paid as a reward for delaying a claim beyond State Pension age) and 'protected payments' paid to recipients of the new State Pension for people who had already built up more than the full amount in April 2016;[16]
- **those over which the Secretary of State has discretion**: the largest of these is Universal Credit but also included are Employment and Support Allowance and Jobseeker's Allowance. This group is often referred to as the 'working age benefits.'[17]

This is provided for in the *Social Security Administration Act 1992*:

- Section 150 requires the Secretary of State to review certain social security benefits, to determine whether they have retained their value in relation to the general level of prices, and, if they have not, to bring forward a draft up-rating order to up-rate the benefits covered in the second bullet point about by at least as much as the increase in the general level of prices.
- For other (mainly working age) benefits, section 150 states that if the Secretary of State considers it appropriate, "having regard to the national economic situation and any other matters which [s]he considers relevant", the draft uprating order may increase benefit rates "by such a percentage or percentages as [s]he thinks fit."
- Section 150A requires the Secretary of State to review certain benefits, to determine whether they have retained their value in relation to the general level of earnings and, if they have not, to bring forward a draft up-rating order to up-rate them by at least as much as the increase in the level of earnings.

15 Adapted from Bill 186 2019-21-EN, para 2
16 See Deferred retirement increments, Commons Library Briefing Paper CBP 2868, May 2020; State Pension FAQs, CBP 7981, July 2020, p22
17 Bill 186 2019-21-EN, para 2

The Secretary of State has discretion as to the measure of earnings and prices to use.[18] Since 2011, the up-rating process has used the September Consumer Prices Index (CPI) figure for the rise in prices and the May-July Average Weekly Earnings (AWE) figure for the growth in earnings.[19] Different measures have been used over time.[20]

Further information on the statutory framework governing the uprating of benefits and pensions can be found on section 4 of Commons Library briefing RP13/1, Welfare Benefits Uprating Bill, 4 January 2013.

Annual uprating orders

The annual increases in benefits and tax credits are legislated for in a statutory instrument – a Social Security Uprating Order. This is subject to the affirmative resolution procedure, which means it is laid in draft and approved by both Houses before becoming law.[21]

The rates are generally announced in November, with the increases taking effect in the week beginning with the first Monday in the following tax year, or on such earlier date in April as may be specified in the Order.[22] The reason for this timetable is that the uprating process has to begin six months in advance, to enable the Department for Work and Pensions to meet IT delivery deadlines.[23]

3.2 Policy development

The Bill would amend clause 150A of the 1992 Act, which provides for earnings uprating of the State Pension and other benefits. The restoration of the State Pension earnings link and the introduction of the triple lock are discussed below.

The State Pension earnings link

A statutory duty to increase state pensions in line with prices was first introduced by section 39 of the *Social Security Act 1973* (although the first uprating on a statutory duty did not take effect until April 1975). 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.[24] The Conservative Government elected in 1979 pronounced this "unsustainable" in the light of experience. The then Secretary of State for Social Services, Patrick Jenkin, argued that what really mattered was "the guarantee against rising prices."[25] Section 1 of the *Social Security Act 1980* amended the *Social Security Act 1975* to link long-term benefit increases to prices, not earnings.

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18 *Social Security Administration Act 1992*, s 150 (2) and s150A (8)

19 Bill 186 2019-21-EN, para 5

20 State Pension The title of the Bill is in fact the Welfare Benefits Up-rating Bill (hyphenated) but in this briefing we refer to the Uprating Bill, since the unhyphenated term is more commonly used, Commons Library Briefing Paper CBP 5649, April 2020, section 1

21 House of Commons, Delegated Legislation – A brief guide, August 2011

22 *Social Security Administration Act 1992* s150 (10)

23 Bill 186 2019-21-EN, para 19-21; HC Deb, 5 July 2010, c109W; See also HC Deb 14 April 2000, c313-4W

24 *National Insurance Act 1974, section 5*; *Social Security Act 1975*, section 125

25 HC Deb 13 June 1979, c 439

The Labour Government elected in 1997 resisted calls to restore the earnings link for some years, arguing that it did nothing to help the poorest pensioners, on whom they wanted to concentrate resources through the means-tested benefit, Pension Credit.[26] The legislation in force until 2011 required the basic State Pension (BSP) to be uprated *at least* in line with prices but did not prevent it from being increased by more than this if the Secretary of State chose to do so. Price inflation in the year to September 1999 was only 1.1% so the April 2000 pension increase came out at only 75p for a single pensioner. This notoriously small increase[27] persuaded the then Chancellor, Gordon Brown, to announce a minimum increase in pensions. In his Pre-Budget Statement on 8 November 2000, the Chancellor announced above-inflation increases in the BSP.[28] From 2002 onwards, the Labour Government was committed to uprating the BSP by the higher of 2.5 per cent and inflation.[29]

In 2005, the Pensions Commission[30] recommended that the Government should restore the link with earnings. This was in order to "stop the spread of means-testing which would occur if present indexation arrangements were continued indefinitely."[31] In a May 2006 White Paper, the Labour Government announced that it would restore the earnings link, probably from 2012:

> 3.24 During the next Parliament, therefore, we will re-link the uprating of the basic State Pension to average earnings. Our objective, subject to affordability and the fiscal position, is to do this in 2012 but in any event at the latest by the end of the next Parliament. We will make a statement on the precise date at the beginning of the next Parliament.[32]

The aim was to provide a better platform for private saving:

> If the state system is to serve as a foundation for their retirement planning, it must retain its level relative to these expectations. This will help to address the problem of undersaving by enabling people to predict with confidence what they are likely to receive from the State when they retire, and therefore what they will need to save in addition to meet their expectations.[33]

26 HC Deb 1 April 2003 c677W [Ian McCartney]
27 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
28 HC Deb 8 November 2000, c 326
29 HC Deb, 27 November 2001, cc836-7; HC Deb, 15 June 2005, 441W; Pre Budget Report 2009, para 5.43
30 Set up in 2002 to 'advise on whether the existing system of voluntary private pensions would deliver adequate results' - see the archived Pensions Commission website.
31 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)
32 DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006
33 Ibid, para 3.21

The *Pensions Act 2007* provided for a statement to be made on timing by 1 April 2011 and for the link itself to be restored by the end of the 2010 Parliament.[34] In the event it was restored from April 2011.[35]

The question of why the earnings link does not apply to the additional State Pension was debated when the legislation was before Parliament. The then Pensions Minister, James Purnell, explained that it was on grounds of cost and because the Pensions Commission had made it clear that in retirement it was appropriate to maintain overall pensioner incomes (including the additional State Pension) somewhere between earnings and prices. This reflected pensioners' preference to "have a bit more when they retire and then have an increase in line with a mixture of earnings and inflation."[36]

The triple lock

For background, see State Pension triple lock, Commons Library Briefing Paper, CBP 7812, May 2020

The 'triple lock' or triple guarantee refers to the commitment made in the Coalition Government's Programme for Government to uprate the basic State Pension by the highest of earnings, prices or 2.5%.[37]

Following the 2015 general election, the current Government said it would maintain the triple lock on the State Pension.[38] It later confirmed that this would apply to the full new State Pension as well as the basic State Pension.[39]

In his 2016 Autumn Statement, the then Chancellor of the Exchequer Philip Hammond confirmed the commitment to the triple lock for that Parliament but said the Government would "review public spending priorities and other commitments for the next Parliament in light of the evolving fiscal position at the next spending review."[40]

There was cross-party support for the triple lock in manifestos for the 2019 general election.[41] The Conservative Party election for the 2019 general election included a commitment to keep the "triple lock."[42] This has since been confirmed in parliamentary debates.[43]

34 Section 5; DWP, Security in retirement: towards a new pensions system, CM 6841, 25 May 2006, para 3.21
35 HL Deb 14 March 2011 c75; SI 2010/2650; Social Security Benefits Uprating Order 2011 – Explanatory Memorandum, para 7.4
36 Pensions Bill Deb, 25 January 2007, c88 [James Purnell]
37 The Coalition: Our Programme for Government, May 2010
38 HM Treasury, Summer Budget 2015, 8 July 2015, HC 264 para 1.139; See also OBR, Fiscal Sustainability Report, June 2015, table 3.1
39 See, for example, HL Deb 28 April 2016 c1235
40 HC Deb 23 November 2016 c906
41 Labour Party election manifesto 2019; Liberal Democrat election manifesto 2019/our plan to build a fair society/support for pensioners; SNP general election manifesto 2019/fair pensions; DUP election manifesto 2019
42 Our Plan - Conservative Party election manifesto 2019
43 HC Deb 10 Feb 2020 c671 [Will Quince]; HC Deb 13 Feb 2020 c997 [Jacob Rees Mogg]

Guarantee Credit uprating

When Pension Credit was introduced in October 2003, the statutory requirement under the *State Pension Credit Act 2002* was for the Secretary of State to review the level of the Pension Credit each year and to increase it if he considered it "appropriate" to do so.[44]

In 2005, the Labour Government announced that the Standard Minimum Guarantee (SMG) in Pension Credit would rise in line with average earnings at least until 2008.[45] In the May 2006 Pensions White Paper, it said this would continue for the longer term to "ensure that the gains we have made against pensioner poverty are secure into the future. As now, the Guarantee Credit will provide a guaranteed minimum level of income in retirement for those who have been unable to provide adequately for their own retirement."[46] This became a statutory requirement from 2008/09.[47]

The triple lock does not apply to the Standard Minimum Guarantee. On several occasions where the increase in the State Pension under the triple lock was higher than earnings (for example, where it was 2.5%) the Government used its discretion to increase the Standard Minimum Guarantee by the cash rise in the basic State Pension. This was a higher increase than required by the legislation, in order to ensure that the poorest pensioners did not receive a smaller increase than the one being paid for the basic State Pension. For example, Autumn Statement 2014 explained that the basic State Pension would increase by 2.5% and that:

> The benefits of triple lock uprating will also be passed on to the poorest pensioners through an increase in the standard minimum income guarantee in Pension Credit to match the cash rise in the basic State Pension. This will partly be paid for through a rise in the Savings Credit threshold by 5.1%. As a consequence of the increase in the Pension Credit standard minimum income guarantee, the full new State Pension will rise to at least £151.25 per week. The actual amount will be set in autumn 2015.[48]

There is no duty to uprate the other elements of Pension Credit. The legislation merely states that "if [the Secretary of State] considers it appropriate, having regard to the national economic situation and any other matters which he considers relevant", the draft uprating order may increase benefit rates "by such a percentage or percentages as he thinks fit."[49]

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[44] *State Pension Credit Act 2002,* Sch 2, para 16
[45] HM Treasury, Budget 2005, para 5.63; HC Deb 22 February 2005, c 197 [Alan Johnson]; HC Deb 16 March 2005, cc 265-266 [Gordon Brown]
[46] DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006
[47] *Pensions Act 2007, s5*
[48] HM Treasury, Autumn Statement 2014, para 1.235; HM Treasury, Autumn Statement 2013, Cm 8747; HC Deb, 6 December 2012, c1030; HC Deb, 6 December 2011, c163; HM Treasury, Budget 2010, June 2010, para 1.107
[49] *Social Security Administration Act 1992* s150 (1) (1) and (2)

Uprating of other benefits

Most working-age benefits and tax credit elements were subject to a four-year freeze covering the period 2016/17 to 2019/20. This followed a three-year period from 2013/14 to 2015/16 when annual increases were limited to 1%. In addition, specific freezes affected Child Benefit and certain tax credit elements applied from 2011/12 to 2013/14.

The benefits affected included:

- Jobseekers' Allowance
- ESA personal allowances and work-related activity component
- Income Support
- Child and Working Tax Credit (non-disability-related elements)
- Housing benefits: various allowances/premiums and LHA rates
- The equivalents of the above in Universal Credit
- Child Benefit

Other working-age benefits, such as the ESA Support component (payable to those with the severest work-limiting conditions), disability and carers' benefits and statutory parental pay were unaffected.

Further information on the benefits freeze and other uprating changes can be found in Benefits Uprating 2020, Commons Library briefing, CBP-8806, April 2020.

Temporary benefit increases for 2020/21

On 20 March 2020 the Chancellor of the Exchequer Rishi Sunak announced a support package for individuals and businesses in response to the economic disruption caused by the coronavirus outbreak.[50] This included increases to benefit and tax credit amounts, on top of those for CPI inflation that had already been announced for 2020/21:

- Universal Credit standard allowances and Working Tax Credit basic element: increased by £1,000 per year
- Local Housing Allowance rates: reset to the 30th percentile market rent in each broad rental market area.

While the increases have been widely welcomed, there have been concerns that they leave out claimants of other benefits. Pressure groups have called on the Government to increase other benefits such as Employment and Support Allowance, Child Benefit, extra-costs disability benefits, and Carer's Allowance. The Government has however resisted such calls, citing operational concerns and a desire to focus help on new claimants as a result of the pandemic.

While Ministers have indicated that the uplift in LHA rates is permanent, the Government has given no commitment to maintain the increases in Universal Credit and Working Tax Credit rates beyond 2020/21. The Resolution Foundation, among others, has called on the Government to continue with the increased rate of the UC standard allowance beyond

[50] See Gov.uk The Chancellor Rishi Sunak provides an updated statement on coronavirus and Chancellor announces workers' support package (both 20 March 2020)

the current financial year "given that the impact of the crisis is going to last beyond March 2021 for many families".[51]

Further information on the temporary increases and related issues can be found in the following Commons Library briefings:

- Coronavirus: Support for household finances, CBP-8894, 22 June 2020
- Coronavirus: Withdrawing crisis social security measures, CBP-8973, 25 September 2020
- Coronavirus: Universal Credit during the crisis, CBP-8999, 4 September 2020
- Section 3 of the Work and Pensions Committee report, DWP's response to the coronavirus outbreak, HC 178 2019-21, 22 June 2020; and the Government's response published on 8 September

[51] Resolution Foundation, This time is different – Universal Credit's first recession, May 2020, p66

4. Trends in uprating since 2010

The table below sets out the value of the key benefits with a statutory link to earnings, and shows how the annual increases in these benefits compares to the Government's chosen measure of earnings growth for use in the uprating process – which since 2011/12 is the average annual change in the ONS's Average Weekly Earnings (AWE) series for the three months May to July.

State Pension and Pension Credit rates and earnings growth

£ per week

	State Pension				Pension Credit Guarantee Credit			Average earnings growth (b)
	New State Pension (a)	Basic State Pension (cat A/B)	Non-contrib. (cat C/D)	chg.	Single	Couple	chg.	chg.
2010/11		97.65	58.50	+2.5%	132.60	202.40	+2.0%	+1.8%
2011/12		102.15	61.20	+4.6%	137.35	209.70	+3.6%	+1.3%
2012/13		107.45	64.40	+5.2%	142.70	217.90	+3.9%	+2.8%
2013/14		110.15	66.00	+2.5%	145.40	222.05	+1.9%	+1.6%
2014/15		113.10	67.80	+2.7%	148.35	226.50	+2.0%	+1.2%
2015/16		115.95	69.50	+2.5%	151.20	230.85	+1.9%	+0.6%
2016/17	155.65	119.30	71.50	+2.9%	155.60	237.55	+2.9%	+2.9%
2017/18	159.55	122.30	73.30	+2.5%	159.35	243.25	+2.4%	+2.4%
2018/19	164.35	125.95	75.50	+3.0%	163.00	248.80	+2.3%	+2.2%
2019/20	168.60	129.20	77.45	+2.6%	167.25	255.25	+2.6%	+2.6%
2020/21	175.20	134.25	80.45	+3.9%	173.75	265.20	+3.9%	+3.9%

Notes:

The amounts of the Industrial Death Benefit higher rate and widower's pension are identical to the Basic State Pension. The Industrial Death Benefit lower rate is 30% of the higher rate.

(a) New State Pension first introduced in April 2016.

(b) Since 2011/12 the Government has used the Average Weekly Earnings (AWE) average annual percentage change in the three months to July (ONS series KAC3). AWE is the successor to the old ONS Average Earnings Index which was last used for 2010/11 benefit rates and was discontinued in 2010.

The table below shows the triple-lock increase provided to the State Pension in each financial year, alongside the relevant measures of CPI inflation and average earnings growth. 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.

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

Setting State Pension amounts in financial year:	Triple lock		Reference indices	
	Factor	based on:	Consumer Prices Index (CPI) inflation	Average earnings growth
2011/12	(a)		+3.1%	+1.3%
2012/13	+5.2%	CPI	+5.2%	+2.8%
2013/14	+2.5%	2.5%	+2.2%	+1.6%
2014/15	+2.7%	CPI	+2.7%	+1.2%
2015/16	+2.5%	2.5%	+1.2%	+0.6%
2016/17	+2.9%	Earnings	-0.1%	+2.9%
2017/18	+2.5%	2.5%	+1.0%	+2.4%
2018/19	+3.0%	CPI	+3.0%	+2.2%
2019/20	+2.6%	Earnings	+2.4%	+2.6%
2020/21	+3.9%	Earnings	+1.7%	+3.9%
2021/22	TBC		TBC	-1.0% (TBC)

Notes:

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

TBC = to be confirmed. The CPI figure for September 2020 will be published on 21 October, and the confirmed average earnings growth figure for July 2020 for uprating purposes will be published on 13 October.

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)

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:

- 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)

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.[52]

The other key pensioner benefit that is uprated with reference to annual earnings growth is the **Pension Credit Guarantee Credit**.[53] For the years 2011/12 to 2015/16 and 2018/19, periods of relatively low earnings growth, earnings indexation would have meant that Guarantee Credit recipients failed to benefit from the underlying cash increase in the triple-locked Basic State Pension. As a result, the Government chose in those years to 'pass through' the cash increase in the Basic State Pension to the Guarantee Credit, resulting in an above-earnings increase in those years.[54]

Outlook for 2021/22

On 15 September the ONS published its first measurement of annual earnings growth in the three months to July 2020: **-1.0%**.[55] If this figure is confirmed in the ONS's next release of labour market statistics (scheduled for Tuesday 13 October) it will be the first time that the July figure for this data series will have been negative since it began to be used for the purposes of uprating.

Annual earnings growth, UK

Percentage change in average weekly earnings (3-month average rate, %)

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

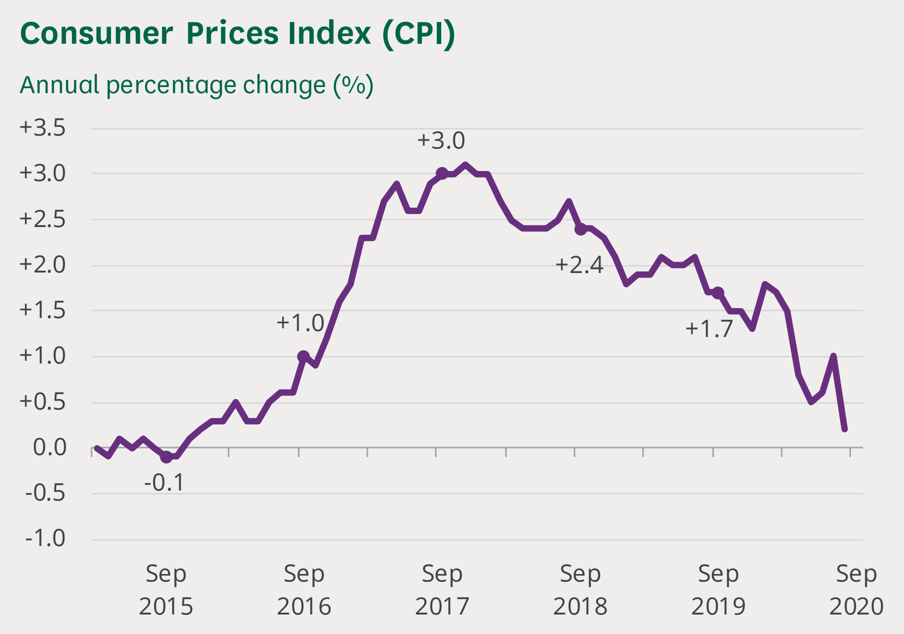
52 HoC Library calculations. See also Written question 47306 [State Retirement Pensions], answered 26 May 2020. The Minister for Pensions Guy Opperman said: "Since 2010, the full yearly amount of the basic State Pension in 2020/21 is around £700 higher than if it had just been up-rated by earnings since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

53 Corresponding to the "amounts of the standard minimum guarantee" mentioned in the *Social Security Administration Act 1992*, 150A(1)(d).

54 See, for example, HM Treasury, Autumn Statement 2014, para 1.235

55 ONS series KAC3, Average weekly earnings (AWE) whole economy year-on-year three-month average growth (values for preceding July). July 2020 figure first released on 15 September as part of the ONS's Labour market overview, UK: September 2020 (table EARN01).

CPI inflation has also been trending downwards in recent months. The CPI figure in August 2020 was 0.2%, the lowest it has been since the end of 2015. The figure for September 2020 (the relevant one for uprating purposes) will be published by the ONS on Wednesday 21 October.



Source: [ONS series D7G7, CPI annual rate (values for preceding September)]

5. The Bill

The *Social Security (Uprating of Benefits)* Bill 186 2019-21 was published on 23 September 2020 and is scheduled to go through all its House of Commons Stages on Thursday 1 October. Information about the progress of the Bill is on the Parliament website.

Its purpose is to allow the State Pension (specifically, the basic State Pension and the full amount of the new State Pension), the Standard Minimum Guarantee in Pension Credit and specified amounts in industrial death benefits and to be uprated in April 2021 despite there being no growth in earnings in the period May-July 2020.[56]

It is needed because the existing legislation enables the Secretary of State to bring forward an Order for uprating of those benefits only where earnings have increased over the review period:

> 150A.— (1) The Secretary of State shall in each tax year review the following amounts in order to determine whether they have retained their value in relation to the general level of earnings obtaining in Great Britain – […]
>
> (2) Where it appears to the Secretary of State that the general level of earnings is greater at the end of the period under review than it was at the beginning of that period, he shall lay before Parliament the draft of an order which increases each of the amounts referred to in subsection (1) above by a percentage not less than the percentage by which the general level of earnings is greater at the end of the period than it was at the beginning.[57]

The Bill inserts a new subsection (2A), enabling the Secretary of State to up-rate the relevant benefits in 2021/22 despite earnings having fallen:

> In relation to the review under subsection (1) of section 150A of the Social Security Administration Act 1992 (annual up-rating of basic pension etc and standard minimum guarantee) in the tax year ending with 5 April 2021, the other provisions of that section are to have effect as if— (a) after subsection (2) there were inserted—
>
> (2A) Where it appears to the Secretary of State that the general level of earnings is no greater at the end of the period under review than it was at the beginning of that period, the Secretary of State may, if the Secretary of State considers it appropriate having regard to the national economic situation and any other matters which the Secretary of State considers relevant, lay before Parliament the draft of an order which increases each of the amounts referred to in subsection (1) above by such a percentage as the Secretary of State thinks fit.

Without this, the existing legislation means that the Secretary of State would probably not be able to increase the relevant benefit and pension rates.[58] They would remain frozen, as happened to benefits linked to prices in 2016/17, when the Consumer Prices Index for the 12 months to September 2015 showed a negative growth rate, at -0.1 per cent. The Secretary of State determined that the relevant benefits (which

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56 Bill 186 2019-21-EN, para 5
57 *Social Administration Act 1992*
58 Bill 186 2019-21-EN, para 22

included the additional State Pension) had maintained their value in relation to prices and no Order was laid to increase them.[59]

The current Bill is being fast-tracked to enable uprating in April 2021:

> 20 The Secretary of State will need to have completed her review of earnings, and made a Statement to Parliament, by 27 November 2020, to meet hard IT delivery deadlines. The Statement provides the legal cover to enable the Department for Work and Pensions to make advance awards of State Pension at the increased rate. It also authorises the Annually Managed Expenditure (AME) which is committed by starting the IT process, which process cannot be reversed once started.[60]

The Government explains that the Bill was introduced as soon as possible after it became clear from the indices that there would be no earnings growth over the review period. It modifies section 150A of the 1992 Act only as it applies to the review of earnings conducted this year.[61]

The Bill applies to England Wales and Scotland. Survivors' benefits in Industrial Death Benefit fall within the legislative competence of the Scottish Parliament but there has been agreement in principle to a Legislative Consent Motion to allow this Bill to cover Scotland in this respect. The Department for Communities in Northern Ireland has a policy of maintaining parity with Great Britain through its own legislation.[62]

Comment

Arguments for and against the triple lock since its introduction have centred around questions of cost and intergenerational fairness.[63] In the run-up to the publication of this Bill, there was speculation about whether the Government would scrap it due to pressure on the public finances resulting from the Coronavirus pandemic.[64]

However, the Explanatory Notes to the current Bill say it will "allow the Government to meet its commitment to the Triple Lock."[65]

There has been relatively little comment on the Bill since its publication on 23 September, probably because people generally expected that the triple lock would continue to apply and did not realise the wording of the legislation might prevent this.

However, it also seems likely that debate about the longer-term fate of the triple lock will continue. In a report in *FT adviser* on the day the Bill was published, one pensions industry spokesperson said that no State Pension uprating in 2021/22 for apparently technical legal reasons would have come as a shock to millions of pensioners. Another argued

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59 Explanatory Memorandum to Social Security Benefits Uprating Order 2016 (SI 2016/230), para 4.2
60 Bill 186 2019-21-EN
61 Ibid
62 Ibid
63 State pension triple lock, Commons Library Briefing Paper CBP 7812, June 2020
64 'Rishi gets tough...', *Mail online*, 19 September 2020; Government confirms triple lock boost despite widespread scepticism, *FT adviser,* 23 September 2020
65 Bill 186 2019-21-EN, para 5

that the fairness of this would be questioned when "many others are taking a cut in their pay, working less hours or have lost their jobs altogether."[66]

5.1 Impact

As the Bill enables the Government, in the event of no annual increase in average earnings, to maintain its existing policy of delivering triple lock increases to the State Pension, the Bill entails no additional public expenditure relative to existing policy.[67]

We can however estimate that if the earnings-linked elements of the State Pension were to be frozen at their 2020/21 cash levels in 2021/22 instead of receiving a triple-lock minimum increase of 2.5% (that is, if there were no uprating order providing for State Pension increases in April 2021), this would save the Exchequer around £2 billion in 2021/22.[68]

66 Government confirms triple lock boost despite widespread scepticism, *FT adviser,* 23 September 2020
67 Bill 186 2019-21-EN, para 33
68 House of Commons Library calculations based on DWP Benefit expenditure and caseload tables Spring Budget 2020 edition, State pension table

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