HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

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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 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. In the 2016 Autumn Statement, Chancellor of the Exchequer Philip Hammond 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" (HC Deb 23 November 2016 c906).

In its manifesto for the 2017 election, the Conservative Party pledged to replace the triple lock with a double lock (the highest of earnings or prices) from 2020. The Democratic Unionist Party, Labour, Liberal Democrat and Scottish National Party pledged to maintain the triple lock, at least for this Parliament.

Arguments for and against the policy centre 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 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 CPI, although in 2011 the 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]

Although the Coalition did not initially specify what measure of earnings would be used for these purposes, in December 2012, it said it had used the increase in average weekly earnings to July and this measure has been used since.[6]

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 HC Deb, 6 December 2012, c1030 [Steve Webb]; Library Briefing Paper CBP-07818 2017 Benefit Uprating (December 2016)

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 breaking of the earnings link in the early 1980s.

- **1970s – 1990s -** A statutory duty to increase state pensions in line with prices was first introduced in April 1973.[7] 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.[8] The Conservative Government elected in 1979 pronounced this "unsustainable" and argued that what really mattered was "the guarantee against rising prices."[9] It therefore legislated to link long-term benefit increases to prices rather than earnings.[10]

- **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.[11] 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.[12] From 2002 onwards, the Labour Government was committed to uprating the basic State Pension by the higher of 2.5 per cent and inflation.[13]

- **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."[14] 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.[15] The *Pensions Act 2007* provided for the earnings link to be restored.[16] It was brought into effect from April 2011.[17]

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7 *Social Security Act 1973,* s39

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

9 HC Deb 13 June 1979, c 439

10 *Social Security Act 1980,* s1

11 HC Deb 1 April 2003 c677W [Ian McCartney]

12 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

13 HC Deb, 27 November 2001, cc836-7; HC Deb, 15 June 2005, 441W; Pre Budget Report 2009, para 5.43

14 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)

15 DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006, para 3.24

16 Section 5; DWP, Security in retirement: towards a new pensions system, CM 6841, 25 May 2006, para 3.21-4;

17 HL Deb 14 March 2011 c75; SI 2010/2650; Social Security Benefits Uprating Order 2011 – Explanatory Memorandum, para 7.4

- **2010 onwards -** The restoration of the earnings link was supported by both opposition parties when the legislation was before Parliament.[18] In its election manifesto, the Conservative Party said it would restore the earnings link.[19] 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."[20]

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.[21]

The Coalition Government later legislated to introduce a new State Pension for future pensioners from 6 April 2016.[22] Its modelling for this assumed that the triple lock would apply but that a decision would be made closer to implementation.[23] The then Pensions Minister Steve Webb said it was 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.[24]

Following the 2015 general election, the new Government said it would maintain the triple lock on the State Pension.[25] It later confirmed that this would apply to the new State Pension as well as the basic State Pension.[26]

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

18 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]
19 Conservative Party Manifesto 2010 – An invitation to join the Government of Britain
20 Liberal Democrat Manifesto 2010
21 The Coalition: Our Programme for Government, May 2010
22 *Pensions Act 2014*
23 DWP, The single-tier pension: a simple foundation for saving, January 2013, Cm 8528, p12
24 Evidence to the Work and Pensions Committee 2 March 2016 Q3
25 HM Treasury, Summer Budget 2015, 8 July 2015, HC 264 para 1.139; See also OBR, Fiscal Sustainability Report, June 2015, table 3.1
26 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, CPI inflation or 2.5%).[27]

The table below compares the effect of the triple lock guarantee with CPI inflation, RPI inflation and average earnings growth, each year to 2022/23. Since 2012/13 the triple lock minimum guarantee of 2.5% has been used in three years, to uprate the basic (and new) State Pension in 2013/14, 2015/16 and 2017/18.

Basic and new State Pension uprating factors

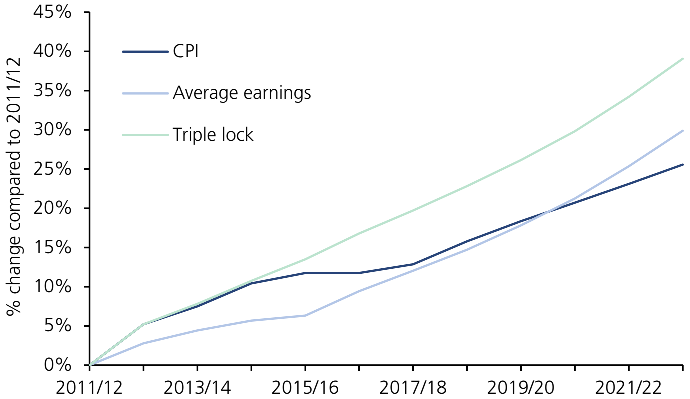
Projected uprating factors from 2018/19 should the triple lock be maintained

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
CPI inflation	3.1%	5.2%	2.2%	2.7%	1.2%	-0.1%	1.0%	2.6%	2.2%	2.0%	2.0%	2.0%
RPI inflation	4.6%	5.6%	2.6%	3.2%	2.3%	0.8%	2.0%	3.9%	3.4%	3.1%	3.1%	3.2%
Average earnings growth	2.0%	2.8%	1.6%	1.2%	0.6%	2.9%	2.4%	2.4%	2.7%	2.9%	3.4%	3.6%
Triple lock	**3.1%**	**5.2%**	**2.5%**	**2.7%**	**2.5%**	**2.9%**	**2.5%**	**2.6%**	**2.7%**	**2.9%**	**3.4%**	**3.6%**

Notes Highlighted cells indicate the uprating factor used (or expected to be used) to uprate the basic and new State Pensions in each year. Average earnings growth, CPI and RPI inflation figures are quoted for September of the previous year.
Source OBR Economic and Fiscal Outlook Spring Budget 2017, table 4.1 and supplementary economy table 1.6; House of Commons Library Benefit Uprating papers 2010 to 2017

As a result of the triple lock the basic State Pension (bSP) will, according to Spring Budget 2017 forecasts, have been uprated at a faster pace than increases in either prices or earnings between 2012/13 and 2021/22.

Percentage change in alternative uprating schedules compared to 2011/12



The chart above shows how the different uprating factors shown in the table above might have impacted upon the value of the bSP if applied

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

from 2012/13 onwards. It shows the percentage change in each uprating schedule compared to its value in 2011/12; hence, 2011/12 is set at 0%.

The light green line in the chart above shows the effect of the triple lock on the value of the bSP. In 2015/16, it was 14% greater (in nominal terms) than in 2011/12. In 2022/23, the triple locked bSP might be around 39% greater (in nominal terms) than in 2011/12.

Alternatively, the dark blue line shows uprating by CPI inflation. Had the bSP been uprated by CPI throughout 2012/13 to 2020/21, in 2015/16 it might have increased by around 12% and in 2022/23 by around 26% compared to 2011/12 (all figures in nominal terms). (However, note that in some years this would result in a lower increase than is required by statute - as CPI was/is forecast to be lower than average earnings in some years over the period. See page 5 for further details).

The light blue line shows uprating in-line with average earnings. Had the bSP been uprated by average earnings throughout, it might have increased by 6% (in nominal terms) in 2015/16 compared to 2011/12 and by 30% in 2022/23 compared to 2011/12.

To put this another way: having been uprated using the triple lock in years 2011/12 to 2017/18, in 2017-18 the full basic State Pension is worth £120.60 per week or £6,293 per annum. This is around £1,195 greater *in nominal terms* than in 2010/11.[28] Taking inflation into account, since the start of the 2017 financial year, the basic State Pension is around £370 greater *in real terms* than it was in 2010/11.

Had it been uprated instead by CPI alone across 2011/12 to 2017/18 the basic State Pension might have been worth around £5,925 per annum in 2017/18; had it been uprated by average earnings, in 2017/18 it might have been worth around £5,820 per annum.

Value in relation to earnings

Another way of assessing the impact of the triple lock on the value of the bSP and nSP over time is to compare their value to average, full-time earnings.

The bSP declined relative to average, full-time earnings after the Conservative Government broke the link between uprating and average earnings in 1980. However, in recent years the triple lock and nSP have increased the value of the State Pension to a level not seen since the earnings link was removed.

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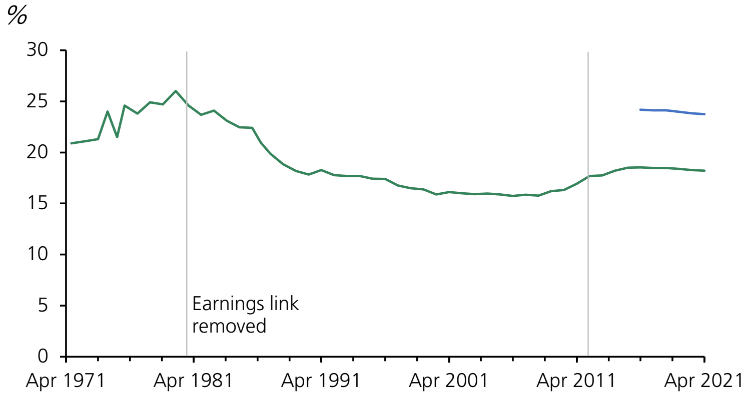
28 The Prime Minister Theresa May quoted a similar figure at Prime Ministers Questions on 26 May 2017 in response to questions from the Leader of the Opposition. "If the right hon. Gentleman wants to talk about pensions and pensioners looking to the future, then once again there will be a very clear choice at this election—a clear choice between a Labour party that in government saw an increase to the basic state pension of 75p in one year, and a Conservative Government whose changes to pensions mean that basic state pensioners are £1,250 better off."

The chart below shows the value of the full bSP and nSP as a percentage of average full-time earnings (for the UK). It shows that the value of the bSP peaked as a percentage of full time earnings in 1979, at around 26%.

As prices tend to rise more slowly than earnings, 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 26% in 1979 to 22% in 1985, then to around 18% in 1990. It reached a low between 2000 and 2008 at around 16%.

Basic and new State Pensions as a percentage of full-time earnings



Notes Chart compares value of full basic and new State Pensions to median full-time earnings (UK)
Sources Uprating factor, inflation and average earnings forecasts from OBR Economic and Fiscal Outlook March 2017 (Spring Budget 2017); House of Commons Library calculations; ONS Annual Survey of Hours and Earnings / New Earnings Survey, DWP Annual Abstract of Statistics

This picture has changed in recent years. The value of the bSP as a percentage of full-time earnings has either risen or remained constant in each year since 2008 and, as the above chart shows, is expected to remain at around 18.4% to 18.5% of average full-time earnings between 2015 and 2021.

This is "a level not seen since the 1980s", the House of Commons Work and Pensions Select Committee noted in its *Intergenerational Fairness inquiry* (November 2016). The Committee explained that:

> ...a combination of economic factors and policy changes in recent years have resulted in the state pension making up much of the ground it had lost relative to earnings during the 1980s and 1990s. Historically, earnings growth has tended to exceed both inflation and 2.5 per cent. This was not, however, the case in the aftermath of the 2008 financial crisis. Exceptional economic circumstances resulted in the BSP increasing relative to average earnings at a rate that would not have been anticipated when either uprating regime was instigated. Steve Webb described the rapid growth in the state pension relative to earnings as a "windfall", as his concern as Pensions Minister had been that such progress would be "glacial." RPI exceeded average earnings for the purposes of state pension uprating in 2008–09, 2009–10 and 2011–12. In the intervening year, the Government applied a discretionary increase of 2.5 per cent, which exceed average earning growth and both measures of inflation. With the triple lock then in place, the BSP increased by more than average earnings in each year from 2012–13 to 2015–16 as either CPI inflation or 2.5 per cent exceeded earnings growth (figure 14).

In 2016/17, the full amount of the nSP is £155.65 pw - around 24% of average full-time earnings. As the chart above shows, this percentage is near the peak reached by the bSP in 1979. The Work and Pensions Committee further noted that in time the "vast majority" of new pensioners will receive the full rate of new State Pension, placing them above the threshold for means test Pension Credit guarantee credit.

Regarding the impact of the triple lock and nSP, the Committee 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.[29]

DWP estimates the full nSP will be over 12% higher in value in 2016 should the triple lock be maintained compared to if it is simply uprated in-line with average earnings.[30] In terms of the impact of pensioner poverty, the Government has said:

> While we can't draw a direct link between the triple lock and pensioner poverty, pensioner poverty is at one of the lowest rates since records began, with 100,000 fewer pensioners in relative poverty (after housing costs) than there were in 2009/10. Pensioners are now less likely to be in relative and absolute low income after housing costs than the population as a whole.[31]

The Intergenerational Commission found that since its introduction, the triple lock had proved "an especially major driver of improvements at the lower end of the pensioner income scale."[32]

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29 Work and Pensions Select Committee, Intergenerational fairness, November 2016
30 DWP, Scenario analysis of future pension incomes, August 2014, page 39
31 PQ 46749 17 October 2016
32 Resolution Foundation and Intergenerational Commission, As time goes by. Shifting incomes and inequality between and within generations, February 2017, Executive Summary

4. How much does it cost?

The triple lock has cost more than was originally expected.

When first announced in the June Budget 2010, the Government estimated that it would cost an additional £450 million (nominal terms) in 2014-15.[33] In Budget 2011 it published revised costings, forecasting that the measure would cost £1.5 billion in 2014-15 and £1.6 billion in 2016-17.[34]

However, subsequent OBR analysis shows the cost to have been greater than this. The OBR's Welfare Trends 2015 report estimated the triple lock cost around £2.9 billion more in 2014-15 than if the Government uprated the basic State Pension in-line with average earnings alone. The OBR commented that:

> Higher inflation and lower average earnings growth relative to the June 2010 forecast mean that the triple lock is estimated to have cost around £2.9 billion in 2014-15 – £2.4 billion higher than the original estimate. It will continue to cost more than uprating by average earnings in 2015-16 and our March 2015 forecast implied that this would be the case in 2016-17 too.[35]

We can estimate the impact of adopting different uprating schedules using spending data from DWP's Benefit Expenditure and Caseload tables. The latest version of these tables (as of Spring Budget 2017) include forecast expenditure 2016/17 to 2022/23, taking into account expected changes in caseload, economic outlook, etc.

2012/13 to 2015/16

The chart below, for 2015/16, compares spending on the bSP to what it might otherwise have been had it been uprated by CPI, RPI or average earnings throughout 2012/13 to 2015/16.

Note each of these scenarios adheres to the statutory requirement that the basic (and new) State Pension be uprated at least in line with average earnings. Therefore, the calculations below in-effect show what expenditure might have been had the bSP been 'double locked' against average earnings and prices

DWP spent £68.00 billion on the triple-locked bSP in Great Britain in 2015/16 (all figures nominal terms).

Alternatively, had it been uprated by average earnings throughout 2012/13 to 2015/16, spending might have been around £63.81 billion – around £4.28 billion less than was in reality the case.

Had the bSP been linked to CPI inflation only, spending might have been around £67.01 billion – around £1.08 billion less than was in reality the case.

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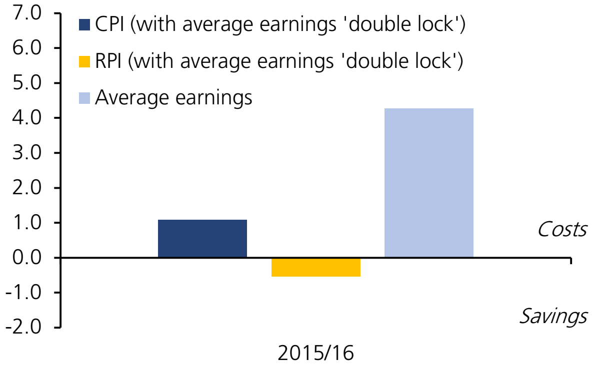
33 Table 2.1, pp40-1
34 Table 2.2, p45
35 OBR, 2015 Welfare Trends Report

Estimated cost/saving in 2015/16 from uprating the basic State Pension by the triple lock, compared to other uprating scenarios

Nominal terms, £ billions, Great Britain



Notes Bars above 0 indicate the triple lock cost the Exchequer. Bars below 0 indicate a saving. Note calculations account for – and adhere to – the Government's statutory requirement to uprate by at least average earnings – hence, calculations for uprating by CPI or RPI in-effect adhere to a 'double locked' scenario
Source House of Commons Library estimates

However, the triple lock saved money compared to uprating by RPI over this period: had the Government uprated by RPI, spending might have been around £68.81 billion in 2015/16. The OBR similarly estimated, that uprating by the triple lock formula, instead of by RPI, saved around £0.6 billion in 2015/16.[36]

Estimated spending over the next Parliament

The table below shows four alternative scenarios for uprating the State Pension in the next Parliament. These include:

- Maintaining the triple lock as currently stands, uprating the basic and new State Pension each year by whichever is greatest out of CPI, average earnings and 2.5%;
- Adopting a "double lock" in which the State Pension is uprated by either CPI or average earnings, whichever is greater;
- Uprating by average earnings alone. This option would fulfil the Government's current statutory obligation to up-rate at least by average earnings, as laid out by the *Pensions Act 2007*;
- Uprating by CPI alone. According to current forecasts, uprating by CPI alone would break the Government's current statutory obligation to up-rate by at least average earnings in years 2019/20 onwards (as average earnings are forecast to be higher than CPI).

The table shows that should the triple lock be maintained the basic State Pension might be worth around £137.15 per week in 2021/22. This is also the case should the basic State Pension be "double locked"; neither CPI nor average earnings are forecast to both fall below 2.5% in the same year over the next Parliament, meaning we would not expect replacing the "triple lock" with a "double lock" to impact upon the value of the State Pension over the next Parliament (that is, unless forecasts change).

[36] OBR Welfare Trends Report 2016; paragraph 3.34, page 42

Projected value of the full basic and new State Pensions

£ per week, nominal terms

	2017/18	2018/19	2019/20	2020/21	2021/22
Basic State Pension					
CPI, "double locked" with average earnings	122.30	125.50	128.90	132.65	137.15
Average earnings	122.30	125.25	128.65	132.40	136.90
CPI, ignoring average earnings minimum uprating requirement	122.30	125.50	128.25	130.80	133.40
Triple lock	**122.30**	**125.50**	**128.90**	**132.65**	**137.15**
New State Pension					
CPI, "double locked" with average earnings	159.55	163.70	168.10	172.95	178.85
Average earnings	159.55	163.40	167.80	172.65	178.50
CPI, ignoring average earnings minimum uprating requirement	159.55	163.70	167.30	170.65	174.05
Triple lock	**159.55**	**163.70**	**168.10**	**172.95**	**178.85**

Source House of Commons Library calculations and OBR Economic and Fiscal Outlook supplementary economic table 1.6

Alternatively, should the basic State Pension be uprated by CPI inflation over the next Parliament it might be worth around £133.40 per week in 2021/22, around £4 per week (around £195 per annum) less than should the triple lock be maintained.

Expenditure on the basic and new State Pensions under various uprating scenarios

£ billions, nominal terms

	2017/18	2018/19	2019/20	2020/21	2021/22
Total expenditure					
CPI, "double locked" with average earnings	72.9	75.3	77.6	80.2	85.6
Average earnings	72.9	75.1	77.5	80.1	85.5
CPI, ignoring average earnings minimum uprating requirement	72.9	75.3	77.2	79.1	83.3
Triple lock	**72.9**	**75.3**	**77.6**	**80.2**	**85.6**
Savings from adopting alternative uprating scenarios, compared to uprating by the triple lock					
CPI, "double locked" with average earnings	0.0	0.0	0.0	0.0	0.0
Average earnings	0.0	0.2	0.1	0.1	0.2
CPI, ignoring average earnings minimum uprating requirement	0.0	0.0	0.4	1.1	2.3

Source House of Commons Library calculations and OBR Economic and Fiscal Outlook supplementary economic table 1.6

DWP estimates that expenditure on the bSP and nSP in 2021/22 will be around £85.6 billion (nominal terms).[37] In comparison, the table above estimates what expenditure might be in each year 2018/19 to 2021/22 should the Government adopt a "double lock", uprated by average earnings alone or CPI inflation alone.

The table shows that in 2021/22 expenditure on the basic State Pension and new State Pension might be around:

- £85.6 billion (nominal terms) should a "double lock" be adopted, the same as if the triple lock is maintained (assuming current forecasts for CPI and average earnings remain unchanged);
- £85.5 billion (nominal terms) should the bSP and nSP be uprated in line with average earnings across the course of the next

[37] DWP Benefit Expenditure and Caseload tables, Spring Budget 2017

Parliament, around £0.2 billion less in 2021/22 than had the triple lock been maintained;

- £83.3 billion (nominal terms) should the bSP and nSP be uprated in line with CPI inflation only across the course of the next Parliament, around £2.3 billion less in 2021/22 than had the triple lock been maintained.

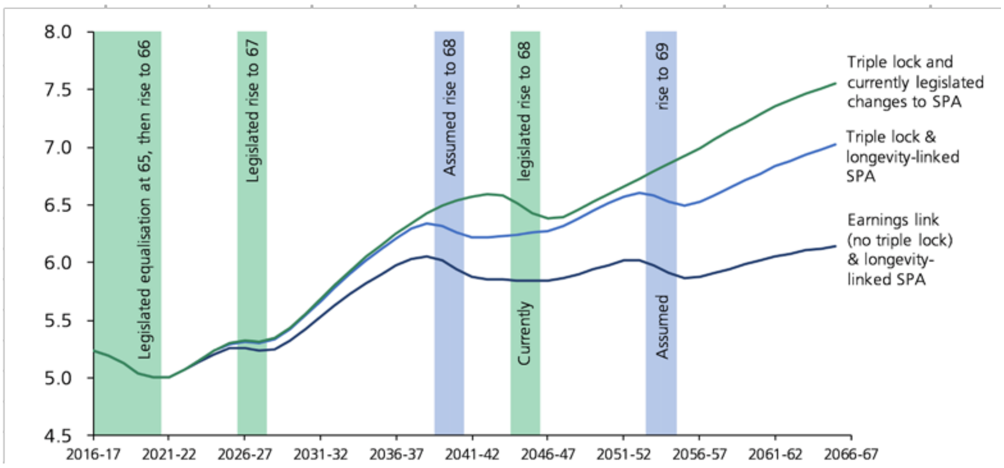
The latest projection of the long-term impact of the triple lock on state pension expenditure was published in the OBR's January 2016 *Fiscal Sustainability Report*.

The triple lock might deliver an average increase in the bSP and nSP over the long-term of 4.6% per annum, according to the OBR, compared to an average increase of 4.3% in average earnings, 3.0% in RPI inflation and 2.0% in CPI inflation (the Bank of England's target).[38] Over the long-term, the OBR assumes the triple lock will be equal to average earnings growth plus 0.34% per annum.

Therefore, under the triple lock expenditure on the bSP and nSP is expected to rise as a proportion of GDP.[39]

OBR projections of state pension expenditure as a % of GDP

%



Source OBR Fiscal Sustainability Report January 2017, tables 3.2 and table 3.10 (see excel files accompanying the report)

The chart above shows projected expenditure on the State Pension as a percentage of GDP. The chart shows three scenarios:

- Projected expenditure under the triple lock and taking into account currently legislated changes to the State Pension Age (SPA), shown in green;
- Projected expenditure under the triple lock and taking into account the OBR's assumed future change to the SPA, which bring forward some currently legislated rises to keep pace with changes in longevity, shown in light blue;
- Projected expenditure if linked to average earnings only and taking into account a longevity link, shown in dark blue.

[38] See table 3.5, page 44 of the OBR's Fiscal sustainability report – January 2017
[39] Ibid. See page 56 of the OBR's report for further commentary.

State Pension expenditure was 5.24% of GDP in 2016-17 and, under all three scenarios, is projected to fall to 5.00% of GDP in 2020-21.

According to the OBR's latest estimates (shown in the chart), by 2065-66 State Pension expenditure might rise to around:

- 7.56% of GDP should the triple lock and currently legislated changes in SPA be maintained;
- 7.02% of GDP should the triple lock be maintained but rises to the SPA be brought forward and a longevity-linked SPA maintained;
- 6.14% of GDP should the triple lock be abandoned and replaced with an average earnings link, rises to the SPA be brought forward and a longevity-linked SPA maintained.

5. Will it survive?

In April 2016, the then Pensions Minister Baroness Altmann said:

> I can certainly reassure the House that there is an absolute commitment to protect pensioner benefits up to 2020, and the basic state pension and the full new state pension, through the triple lock.[40]

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.[41]

Opposition parties have expressed their commitment to the triple lock. For example, on 29 November 2016, the then Shadow Chief Secretary to the Treasury, Rebecca Long Bailey said:

> Let me inform the House that the forecast is this: a pensioner on the state pension will be £429 worse off by 2019-20, with only the triple lock preventing an even worse decline. After claiming in the autumn statement that the triple lock will now be subject to review, will the Chancellor end the uncertainty and worry he has caused older people and join me in committing to preserve the triple lock throughout the lifetime of the next Parliament?[42]

On 30 November, SNP pensions spokesperson, Ian Blackford said:

> One thing on which I will give an absolute commitment is that if we had responsibility for pensions, the triple lock would be secured by the Scottish National party. Pensioners would be secured with the SNP.[43]

The 2017 election manifestos

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:

> By introducing the Pensions Triple Lock and the new State Pension, we have lifted the incomes of millions of older people, reducing pensioner poverty to historically low levels. The Triple Lock has worked: it is now time to set pensions on an even course. So we will keep our promise to maintain the Triple Lock until 2020, and when it expires we will introduce a new Double Lock, meaning that pensions will rise in line with the earnings that pay for them, or in line with inflation – whichever is highest. (Conservative)

40 HL Deb 28 April 2016 c1235
41 HC Deb 23 November 2016 c906
42 HC Deb 29 November 2016 c1393
43 HC Deb 30 November 2016 c1586

The DWP will: support the pensions 'triple lock' (Democratic Unionist Party).

Labour will guarantee the state pension 'triple lock' throughout the next Parliament (Labour).

Maintain the 'triple lock' of increasing the state pension each year by the highest of earnings growth, prices growth or 2.5% for the next parliament (Liberal Democrat).

We will vote to protect the Triple Lock, ensuring that pensions continue to rise by inflation, earnings or 2.5 per cent – whatever is highest (Scottish National Party).

6. Should it survive?

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

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 insuring 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).

The Pensions Policy Institute – looking at how much people needed to contribute to workplace pensions - found that the level of the new State Pension and the uprating arrangements had a significant impact on individuals' chances of achieving an adequate retirement income in future: adequacy was much harder to achieve if the State Pension was increased in line with average earnings rather than triple locked.[44]

On the other side of the argument, are those who argue that the triple lock has 'done its job' and is not sustainable in the longer term. In evidence to the Work and Pensions Committee, 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

[44] Pensions Policy Institute, What level of pension contribution is needed to obtain an adequate retirement income,

> 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).[45]

Work and Pensions Committee

In its November 2016 report on intergenerational fairness, the Committee concluded that the triple lock was 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.[46]

It said that, although the cost of it could be offset by increasing the State Pension age, this disproportionately affected people who were younger or had lower life expectancies:

> 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. We welcome the wide-ranging approach the ongoing review of the state pension age has taken to its work.[47]

Beyond 2020, it recommended replacing the triple lock with a "smoothed earnings link." This would involve benchmarking the State Pension relative to average full-time earnings in 2020. The pension would then be linked to earnings. However, in years where prices were higher, there would be an above earnings increase. Price indexation would continue when real earnings growth resumed until the State Pension reverted to its benchmark proportion of average earnings.[48]

In its response to the Committee's report, the Government reaffirmed its commitment to the triple lock for this Parliament and said spending on pensioners as a percentage of GDP was falling:

> 6. The Government is committed to the triple lock for the length of the Parliament. This was reaffirmed in the Autumn Statement made by the Chancellor on 23 November 2016.
>
> 7. The triple lock has been an invaluable element in addressing the issue of pensioners living in low income households, which peaked in the late 1980s at over 40 per cent. The proportion of pensioners living in low income is now down to 14 per cent.
>
> 8. As a result of the triple lock, the value of the full basic State Pension as a proportion of average earnings is at its highest since the late 1980s.

45 Institute for Fiscal Studies evidence to the Work and Pensions Committee (IGF0023)
46 Work and Pensions Committee, Intergenerational fairness, HC 59, November 2016
47 Ibid
48 Ibid

> 9. 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 it on a sustainable footing.
>
> 10. The latest data for the 2016 Autumn Statement shows that spending on pensioners as a percentage of GDP is falling: from 6.1 per cent in 2010, it is forecast to fall to 5.6 per cent in 2020.[49]

Cridland review

In the final report of his review of the State Pension age (SPA), John Cridland recommended that the SPA should rise to 68 over the period 2037 and 2039. It should not increase more than one year in any ten year period, assuming that there are no exceptional changes to the data.[50] It recommended that if further savings were needed to ensure fiscal sustainability, these should be made by withdrawing the triple lock and uprating 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.[51]

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49 Intergenerational fairness: Government response, 25 January 2017

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

51 Ibid

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