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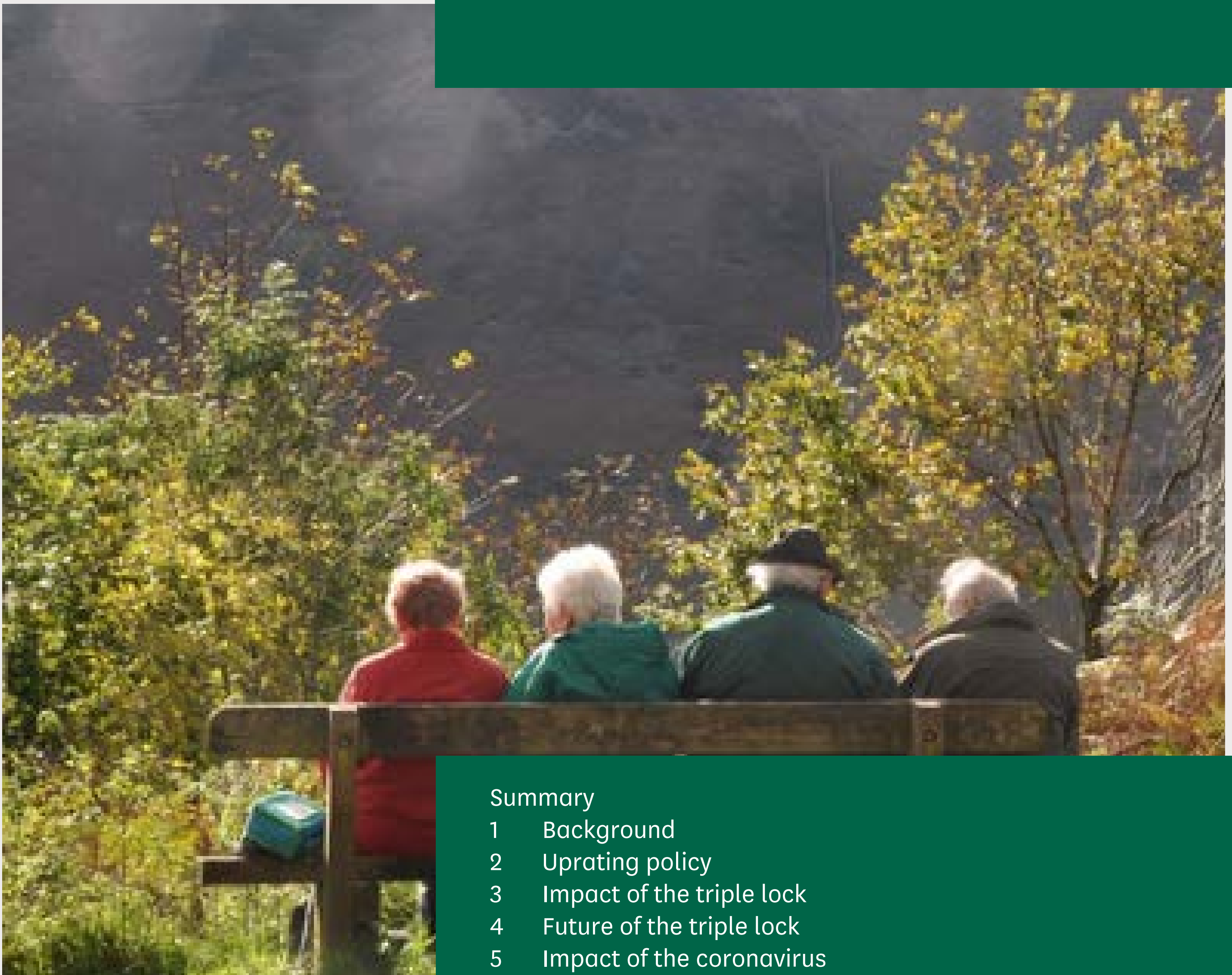
Social Security (Uprating of Benefits) Bill 2021-22



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Summary

The Social Security (Uprating of Benefits) Bill 2021-22 was published on 8 September 2021. The Bill would suspend the earnings element of the State Pensions 'triple lock'. This would only apply for the tax year 2022/23.

This would mean that 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, increase by either inflation or 2.5% (whichever is greater) at the April 2022 benefits uprating.

The Bill is expected complete all its Commons stages on Monday 20 September.

What is the triple lock?

The triple lock is a Government commitment to increase State Pensions each year in line with earnings, prices, or 2.5%; whichever is highest.

The earnings measure used by the Department for Work and Pensions (DWP) for the triple lock is the year-on-year increase in the Average Weekly Earnings (AWE) index for May to July. Following negative earnings growth in mid-2020, the AWE index has risen sharply. The annual increase in the AWE index for the three months to July 2021 was 8.3%.

The Government states that this year's earnings measure is "skewed and distorted" because of the effects of the coronavirus pandemic on the labour market and is "not a real-life basis" for uprating State Pensions next year. It states that uprating State Pensions next year by either inflation or 2.5% (whichever is larger) would preserve and protect pensioners' spending power from higher costs of living, while ensuring pensioners "are not unfairly benefiting from a statistical anomaly".

The Library estimates that:

- Uprating the triple-locked elements of the State Pension by 2.5% instead of 8.3% saves **£5 billion** in State Pension expenditure in 2022/23;
- If, alternatively, the triple-locked elements were to be uprated by 3.2% (in line with the August 2021 rate of CPI inflation) instead of 8.3% earnings growth, the saving in State Pension expenditure would be **£4.5 billion** in 2022/23.

The Bill follows a previous Social Security (Uprating of Benefits) Bill introduced in the 2019-21 parliamentary session. This was in response to the fall in

average earnings over summer 2020, due to the pandemic. As legislation prevents the Secretary of State from bringing forward an Uprating Order if earnings growth is negative, this Bill was necessary to enable State Pensions and other benefits listed above to be uprated from April 2021. State Pensions and the other relevant amounts increased by 2.5% from April 2021.

Parliamentary timetable for the Bill

As with the 2019-21 Bill, the new Bill is to be fast-tracked through Parliament. The Government says this is necessary to meet the annual uprating timetable and associated hard IT delivery deadlines. It states that the Bill was introduced "as soon as possible after it became clear from the indices that earnings growth over the review period had been significantly affected by the Coronavirus pandemic." (Bill 185 2021-22-EN, para 23).

Further background can be found in the following Library briefings:

- State Pension triple lock, CBP 7812, February 2021
- State Pension Uprating, CBP 5649, February 2021
- Benefits Uprating 2021, CBP 9131, February 2021
- Social Security (Uprating of Benefits) Bill 2019-21, CBP 9011, September 2020.

1 Background

The Social Security (Uprating of Benefits) Bill 2021-22[1], published on 8 September 2021, relates to the uprating in 2022/23 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 (£137.60 a week in 2021/22). 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) after that date. People who had already reached SPA

[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 ss44, 44A-C and 45

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

continue to get their pension under the 'old rules'.[8] The full rate of the new State Pension in 2021/22 is £179.60 a week.

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] 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 (£177.10 a week for a single person and £270.30 a week for a couple in 2021/22) 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 £14.04 for a single person and £15.71 for a couple in 2021/22.[12]

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

1.2 Statistics

Caseloads

In February 2021 the DWP paid **State Pensions** to around 12.35 million people living in Great Britain or overseas. There were a further 302,000 people receiving State Pensions from the Department for Communities in Northern Ireland in June 2021. State Pensioners account for 17% of the population of Great Britain, and 16% of the population of Northern Ireland. The majority of State Pensioners (54%) are female.

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)

11 State Pension Credit Act 2002, s2

12 See Pension Credit: current issues, Commons Library Briefing Paper, CBP 8135, August 2020

State Pensioners by gender and country of residence

	Number of State Pensioners			State Pensioners as % of population by gender		
	Total (a)	Male	Female	Total	Male	Female
DWP, February 2021						
Total (b)	12,354,567	5,653,910	6,700,658	..	..	..
of whom: resident of:						
Great Britain	11,203,909	5,128,667	6,075,250	17.3%	16.0%	18.5%
England	9,605,281	4,400,927	5,204,353	17.1%	15.8%	18.3%
Wales	619,410	286,104	333,306	19.6%	18.4%	20.9%
Scotland	979,217	441,630	537,587	17.9%	16.6%	19.2%
Abroad	1,147,226	524,594	622,630	..	..	..
Unknown	3,426	645	2,780	..	..	..
NI Dept for Communities, June 2021						
Northern Ireland	301,870	136,970	161,180	15.9%	14.7%	16.8%

Notes: (a) Male/female split may not sum exactly to total due to statistical disclosure control in the source data (DWP) or missing data on gender in a small number of cases (N Ireland data). (b) Includes a small number with unknown country of residence.

Sources: DWP Stat-xplore benefit combinations dataset; Department for Communities Benefits Statistics; HoC Library calculations based on mid-year population estimates

In February 2021 the DWP paid **Pension Credit** to 1.45 million claimants. 1.22 million (85%) of these received the Guarantee Credit element of Pension Credit, which is linked to earnings. Single claimants accounted for 84% of Guarantee Credit claimants.

There were a further 63,450 people receiving Pension Credit from the Department for Communities in Northern Ireland in May 2021, of whom 56,210 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 2021				
Total (b)	1,447,463	1,224,212	1,029,275	194,944
of whom: resident of:				
Great Britain	1,446,978	1,223,755	1,028,885	194,872
England	1,224,509	1,037,455	870,454	167,003
Wales	87,735	74,218	61,277	12,940
Scotland	134,730	112,083	97,148	14,935
Abroad	217	194	173	23
Unknown	268	266	218	43
NI Dept for Communities, May 2021				
Northern Ireland	63,450	56,210	45,840	10,370

Note: (a) the 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.

Source: DWP Stat-xplore Pension Credit dataset; Department for Communities Benefits Statistics

Industrial Death Benefit is received by approximately 2,000 people in Great Britain.[13]

Expenditure

The DWP is forecast to spend £105.3 billion on **State Pensions** in the current financial year (2021/22), of which £85.0 billion (81%) relates to the elements of State Pension that are uprated in line with the triple-lock. The remainder of State Pension expenditure (19%) is price-indexed in line with inflation as measured by the Consumer Prices Index (CPI).

The DWP's expenditure on **Pension Credit** this year (2021/22) is forecast to be £5.0 billion, of which £4.6 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 2021 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-lock uprating applicable (a)	Total	Of which: Guarantee Credit
	£ million	£ million	£ million	£ million
2016/17	91,580	70,382	5,666	5,244
2017/18	93,800	72,751	5,368	4,973
2018/19	96,743	75,375	5,140	4,732
2019/20	98,797	77,359	5,061	4,668
2020/21	101,198	80,210	5,083	4,703
2021/22	105,324	85,009	4,999	4,627

Note: (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 2021 edition

Total expenditure on **Industrial Death Benefit** in Great Britain in 2021/22 is estimated to be only £15 million, reflecting the relatively small number of recipients.[14]

[14] DWP Benefit expenditure and caseload tables, Spring Budget 2021 edition, industrial injuries benefits table

2 Uprating policy

2.1 Governing 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:

- **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]

Uprating requirements are 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

[15] Adapted from Bill 185 2021-22-EN, para 2

[16] See Deferred retirement increments, Commons Library Briefing Paper CBP 2868, May 2020; State Pension FAQs, CBP 7981, March 2021, p24

[17] Bill 185 2021-22-EN, para 2

relation to the general level of prices, and, if they have not, to bring forward a draft uprating order to uprate the benefits covered in the second bullet point above 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 uprating order to uprate them by at least as much as the increase in the level of earnings.

The Secretary of State has discretion as to the measures of earnings and prices to use.[18] Different measures have been used over time, but since 2011 the uprating 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]

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 implemented by statutory instrument – a Social Security Uprating Order. This is subject to the affirmative resolution procedure, which means it is laid in draft and must be approved by both Houses to become law.[20]

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.[21] The reason for this timetable is that the uprating process must begin six months in advance, to enable the Department for Work and Pensions to meet IT delivery deadlines.[22]

[18] Social Security Administration Act 1992, s150(2) and s150A(8)
[19] Bill 185 2021-22-EN, para 3
[20] House of Commons, Delegated Legislation – A brief guide, August 2011
[21] Social Security Administration Act 1992, s150(10)
[22] Bill 185 2021-22-EN, paras 19-21; HC Deb 5 July 2010 c109W. See also HC Deb 14 April 2000 cc313-4W

2.2 Policy development

The Bill amends section 150A of the Social Security Administration Act 1992, which provides for earnings uprating of State Pensions 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 timeline

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 statutory uprating 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.[23] 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."[24] Section 1 of the Social Security Act 1980 amended the Social Security Act 1975 to link long-term benefit increases to prices, rather than earnings.

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.[25] 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 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[26] 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.[27] From 2002 onwards, the Labour Government was committed to uprating the BSP by the higher of 2.5 per cent and inflation.[28]

In 2005, the Pensions Commission[29] recommended that the Government restore the link with earnings. This was to "stop the spread of means-testing which would occur if present indexation arrangements were continued

[23] National Insurance Act 1974, s5; Social Security Act 1975, s125
[24] HC Deb 13 June 1979 c 439
[25] HC Deb 1 April 2003 c677W [Ian McCartney]
[26] See for example '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
[27] HC Deb 8 November 2000 c 326
[28] HC Deb 27 November 2001 cc836-7; HC Deb 15 June 2005, 441W; Pre Budget Report 2009, para 5.43
[29] 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.

indefinitely."[30] In a May 2006 White Paper, the Labour Government announced that it would restore the earnings link, probably from 2012:

> 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.[31]

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.[32]

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.[33] In the event it was restored from April 2011.[34]

The question of why the earnings link does not apply to the additional State Pension was debated when the 2007 Act 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."[35]

The triple lock

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%.[36]

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30 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)

31 DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006

32 Ibid, para 3.21

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

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

35 Pensions Bill Deb, 25 January 2007 c88 [James Purnell]

36 The Coalition: Our Programme for Government, May 2010

Following the 2015 general election, the Conservative Government said it would maintain the triple lock on the State Pension.[37] It later confirmed that this would apply to the full new State Pension as well as the basic State Pension.[38]

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."[39]

There was cross-party support for the triple lock in manifestos for the 2019 general election.[40] The Conservative Party manifesto for the 2019 general election included a commitment to keep the triple lock.[41] This was confirmed in subsequent parliamentary debates.[42]

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.[43]

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.[44] 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."[45] This became a statutory requirement from 2008/09.[46]

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

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[37] HM Treasury, Summer Budget 2015, 8 July 2015, HC 264 para 1.139; See also OBR, Fiscal Sustainability Report, June 2015, table 3.1

[38] See, for example, HL Deb 28 April 2016 c1235

[39] HC Deb 23 November 2016 c906

[40] 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

[41] Our Plan - Conservative Party election manifesto 2019

[42] HC Deb 10 Feb 2020 c671 [Will Quince]; HC Deb 13 Feb 2020 c997 [Jacob Rees Mogg]

[43] State Pension Credit Act 2002, Sch 2, para 16

[44] HM Treasury, Budget 2005, para 5.63; HC Deb 22 February 2005 c197 [Alan Johnson]; HC Deb 16 March 2005 cc265-266 [Gordon Brown]

[45] DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006

[46] Pensions Act 2007, s5

required by legislation and was implemented to ensure that the poorest pensioners did not receive a smaller increase than that applied to the basic State Pension. For example, Autumn Statement 2014 explained that the basic State Pension would increase by 2.5% and:

> 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.[47]

There is no duty to uprate the other elements of Pension Credit. The legislation merely states "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."[48]

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 uprating changes can be found in our Benefits Uprating 2021 briefing.

[47] 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

[48] Social Security Administration Act 1992 s150 (1) (1) and (2)

Temporary benefit increases introduced in 2020/21

On 20 March 2020, at the beginning of the coronavirus pandemic, the Chancellor of the Exchequer announced temporary increases to the following working-age, means-tested benefits and tax credits, on top of those for CPI inflation that had already been announced for 2020/21:

- The standard allowances of Universal Credit (UC),
- The basic element of Working Tax Credit (WTC), and
- Local Housing Allowance rates (reset to the 30th percentile market rent in each broad rental market area).

These increases in UC and WTC – or the 'uplift' as they are often called – amounted to an additional £1,000 per year, or £20 per week. The Chancellor said this uplift was designed to "strengthen the safety net" during the coronavirus pandemic.[49]

While the increases were widely welcomed, there have been concerns that they leave out claimants of other benefits. The uplift did not apply to any other benefits, including the means-tested 'legacy benefits' which are being replaced by Universal Credit, but are still being claimed by many low-income families of working age. Various welfare rights groups and campaigning organisations (in addition to opposition politicians) have called for the uplift to be extended to these benefits.[50] The Government has resisted, however, noting that the uplift was introduced early in the pandemic to support people newly unemployed or experiencing reduced incomes and therefore new to the benefits system, who have mostly been claiming Universal Credit.[51]

This debate has taken place alongside a parallel campaign to maintain and/or make permanent the uplift instead of allowing it to expire. The Government was clear on introduction that it would be a temporary measure for 12 months which meant it would be withdrawn in April 2021 unless extended.[52]

Various campaigning organisations, in addition to politicians from all parties (including the Work and Pensions Committee),[53] made calls to retain the uplift in UC and WTC beyond this date. On the other hand, some commentators made the case that the uplift should end at some point,[54] such as the Centre

[49] 'The Chancellor Rishi Sunak provides an updated statement on coronavirus', GOV.UK press release, 20 Mach 2020; 'Chancellor gives support to millions of self-employment individuals', GOV.UK press release, 26 March 2020

[50] Disability Benefits Consortium, Pandemic Poverty: Stark Choices Facing Disabled People on Legacy Benefits, 21 February 2021

[51] PQ 25105, 9 July 2021

[52] See, for example, the Secretary of State for Work and Pensions' statement in the House of Commons in May 2020: HC Deb 4 May 2020, c425

[53] Work and Pensions Committee, The temporary increase in Universal Credit and Working Tax Credit, HC 1193, 9 February 2021

[54] Institute for Economic Affairs, Any extension of the Universal Credit uplift should not be made permanent, says IEA expert, 17 January 2021

for Policy Studies, which argued that some of the savings made from removing the uplift could be used to improve work incentives.[55]

In his Budget speech on 3 March 2021, the Chancellor announced that the uplift in the Universal Credit standard allowances would continue for a further six months. The uplift to the basic element of Working Tax Credit was not extended, although it was announced that WTC claimants would receive a one-off payment of £500.[56] The Chancellor noted that the Government would thereafter shift resources and "focus towards getting people into decent, well-paid jobs."[57]

The uplift is now set to end at the beginning of October 2021. Politicians and parliamentarians from different political parties, as well as welfare rights organisations and think tanks, have called on the Government to continue with this additional support beyond October or to make it permanent.[58] In July, the Joseph Rowntree Foundation argued that withdrawal of the uplift in October would "impose the biggest overnight cut to the basic rate of social security since the foundation of the modern welfare state",[59] and that it would create serious financial hardship, leaving "500,000 people to be swept into poverty – including 200,000 children".[60]

The Government is resisting calls to keep the uplift, emphasising that now the economy has reopened its focus is on "supporting people back into work and supporting those already employed to progress in their careers".[61]

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

- Opposition Day Debate: Universal Credit and Working Tax Credit, CDP-2021-0138, 15 September 2021
- Coronavirus: Universal Credit during the crisis, CBP-8999, 4 September 2020
- Coronavirus: Withdrawing crisis social security measures, CBP-8973, 25 September 2020
- Coronavirus: Legacy benefits and the Universal Credit 'uplift', CBP-9246, 28 May 2021.

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[55] Centre for Policy Studies, The Universal Credit Uplift: The Way Forward, 24 January 2021

[56] See HMRC, New one-off £500 payment for working households receiving tax credits, 3 March 2021

[57] HC Deb 3 March 2021 c251

[58] See, for example, One Nation Conservatives, One Nation Pathway to Recovery, 19 April 2021; Letter from Committee Chairs to Chancellor of the Exchequer and the Secretary of State for Work and Pensions, 20 July 2021; Letter from devolved governments to Secretary of State for Work and Pensions, 30 August 2021

[59] JRF, UK heading for the biggest overnight cut to the basic rate of social security since World War II, 23 July 2021

[60] JRF, #KeepTheLifeline: urging the Government not to cut Universal Credit, 23 July 2021

[61] Letter from Secretary of State for Work and Pensions to Stephen Timms, 5 August 2021

3 Impact of the triple lock

The triple lock came into effect in 2011/12, having been announced at the June 2010 Budget. However, in April 2011 the Coalition Government chose to uprate the basic State Pension in-line with RPI inflation. This was because the RPI had previously been used and, for purposes of uprating in 2011, was higher than each of the triple lock components (average earnings growth, CPI inflation or 2.5%).[62] 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, average earnings growth and RPI inflation in each year to 2020/21. Since 2012/13 the 2.5% minimum has been used four times, and the other two benchmarks (average earnings growth and CPI inflation) have each been used three times.

State Pension triple lock: uprating factors used

Setting State Pension amounts in financial year:	Triple lock		Triple-lock benchmarks		*Memo: Retail Prices Index (RPI) inflation (b)*
	Factor	based on:	Consumer Prices Index (CPI) inflation	Average earnings	
2011/12	*+4.6% (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%*
2021/22	+2.5%	2.5%	+0.5%	-1.0%	*+1.1%*

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 and no longer carries National Statistics designation but is shown here for reference.

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

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). AWE estimates on the ONS website are subject to revision and may differ from those in the table above, which are the estimates used for uprating in each year; 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 2021/22 is £137.60 per week, which is:

- **10.8% higher** than if it had been **CPI-indexed** since 2011/12 (£124.20 in 2021/22, a difference of £13.40 per week)
- **10.3% higher** than if it had been **earnings-linked** since 2011/12 (£124.75 in 2021/22, a difference of £12.85 per week)
- **3.8% higher** than if it had been **'double-locked'** in line with the higher of **CPI or earnings**, without the 2.5% minimum increase (£132.60 in 2021/22, a difference of £5.00 per week)
- **1.9% higher** than if it had been **'double-locked'** in line with the higher of **CPI or a 2.5% minimum increase,** without the earnings link (£135.10 in 2021/22, a difference of £2.50 per week).

Basic State Pension: triple-lock and alternatives

£ per week, nominal terms

Financial year	Basic State Pension: actual (triple-locked)	Alternative scenarios from 2012/13 onwards: Consumer Prices Index (CPI) inflation	Earnings link	Double lock: CPI or earnings	Double lock: CPI or 2.5% minimum
2011/12	102.15	102.15	102.15	102.15	102.15
2012/13	107.45	107.45	105.00	107.45	107.45
2013/14	110.15	109.80	106.70	109.80	110.15
2014/15	113.10	112.75	108.00	112.75	113.10
2015/16	115.95	114.10	108.65	114.10	115.95
2016/17	119.30	114.10	111.80	117.40	118.85
2017/18	122.30	115.25	114.50	120.20	121.80
2018/19	125.95	118.70	117.00	123.80	125.45
2019/20	129.20	121.55	120.05	127.00	128.60
2020/21	134.25	123.60	124.75	131.95	131.80
2021/22	137.60	124.20	124.75 (a)	132.60	135.10
Difference vs triple lock in 2021/22		*-13.40*	*-12.85*	*-5.00*	*-2.50*

Note: (a) Assumes -1% earnings decline would have resulted in no change to basic State Pension.

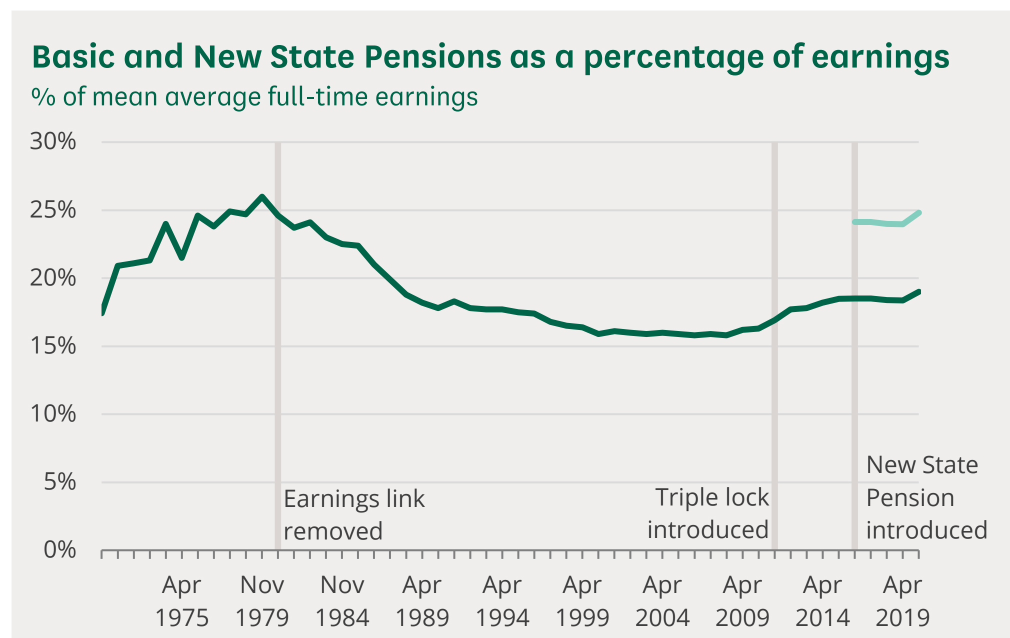
Source: HoC Library calculations. See Library briefing paper Benefits Uprating 2021, CBP 9131 for historic basic State Pension rates.

Looking instead at the change in 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 2021/22 is around £16.80 a week (£875 per year) higher than if it had been uprated by earnings over this period.

3.1 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 BSP declined relative to earnings after the link between State Pension uprating and average earnings was broken in 1980.[63] In recent years the triple lock and the new State Pension (NSP) have helped to boost the core value of the State Pension relative to earnings.

The chart below shows the value of the full BSP and NSP as a percentage of average full-time earnings in 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 earnings link 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.



Source: Abstract of DWP benefit rate statistics 2020; ONS Annual Survey of Hours and Earnings 2020

[63] The earnings link was broken by section 1 of the Social Security Act 1980 and was replaced by price indexation: see HC Deb 28 July 1980 vol 989, Social Security Benefits (Uprating).

Since the introduction of the triple lock, the value of the BSP has risen from 17% of average full-time earnings in 2011 to 19% in 2020, which is the highest it has been on this measure in 33 years (since 1987, when it was 19.9%).

The NSP, worth 24% of average full-time earnings when first introduced in 2016, rose to 25% in 2020.

3.2 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 is the main form of means-tested support for low-income pensioner households.[64] However, it is unclear what effect these increases have had on pensioner poverty since 2011. The main headline measures of pensioner poverty show a mixed picture:

- **Relative low income**: the percentage of pensioners in the UK living in households with net disposable income below 60% of the national median after housing costs has risen from a historic low of 13% in 2011/12 to **18% in 2019/20**. This followed a period of over a decade when this measure had been trending downwards – from a high of 29% in 1998/99.[65]
- **Absolute low income**: measured relative to a 2010/11 real-terms net income baseline after housing costs, 14% of pensioners were in poverty in 2011/12 and **13% in 2019/20**.[66]
- **Material deprivation**: the percentage of UK pensioners living in material deprivation has fallen from 8% in 2011/12 to **6% in 2019/20**, which is the lowest rate since this began to be measured in 2009/10.[67]

The median net income of pensioner households after housing costs rose by 7% in real terms between 2011/12 and 2019/20, from £309 per week to £331 per week (both figures in 2019/20 prices). This constituted a slower rate of trend growth in real incomes among pensioner households than was seen over the preceding two decades.[68]

[64] See the Library briefing Benefits Uprating 2021 (CBP-9131), section 2.2
[65] DWP Households below average income: for financial years ending 1995 to 2020, summary table 1.6a
[66] DWP Households below average income: for financial years ending 1995 to 2020, summary table 1.6a
[67] DWP Households below average income: for financial years ending 1995 to 2020, summary table 1.6c
[68] DWP Pensioners' incomes series: financial year 2019 to 2020, March 2021, section 3 and table 2.1

3.3 International comparisons of pensions

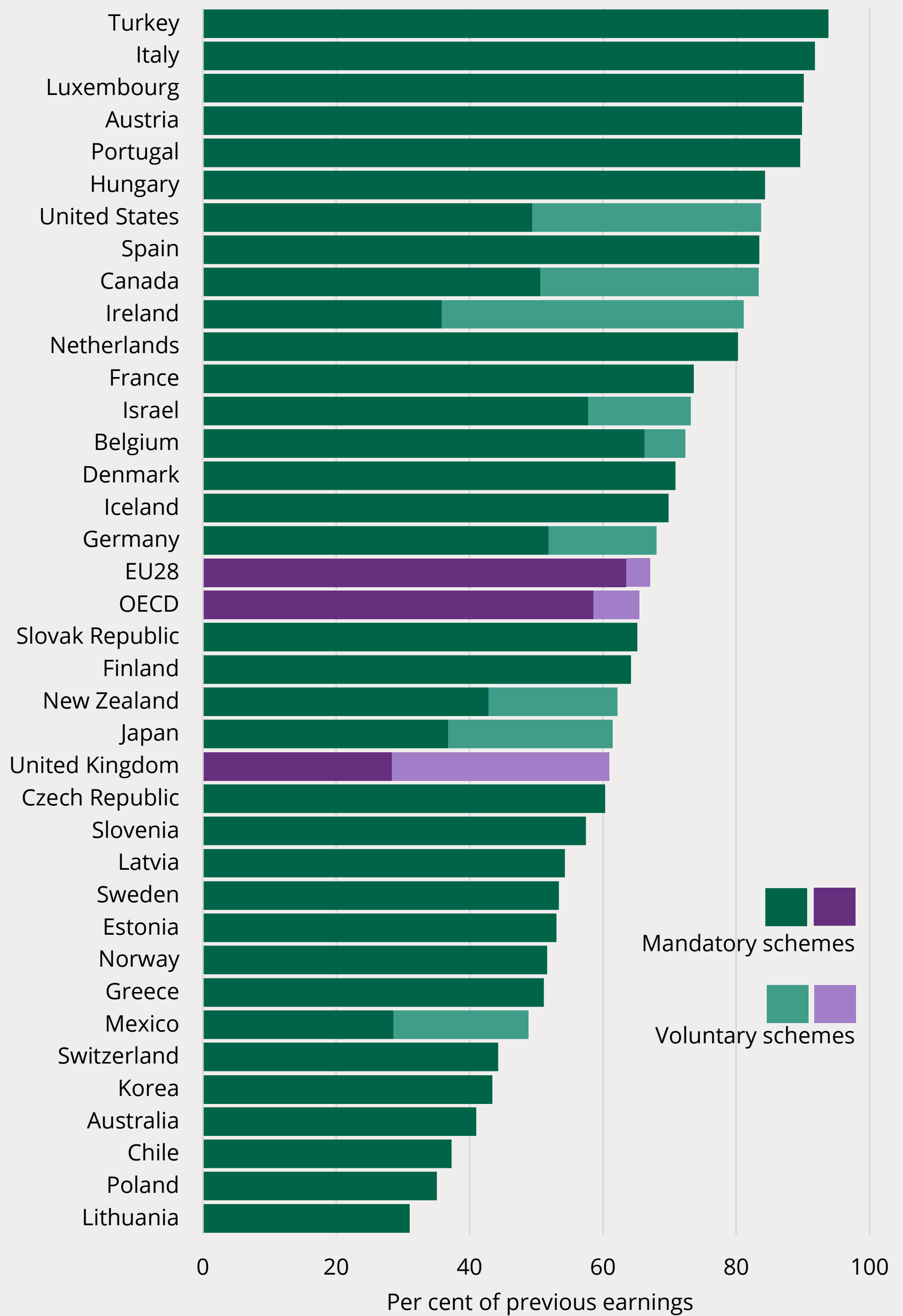
Analysis from the OECD indicates that the UK provides a lower level of state pension than other advanced economies relative to average national earnings. Such comparisons should however be seen in the context of major differences in pension systems across the developed world. Countries differ in terms of the reliance placed on mandatory state provision as a component of overall pensioner income; and also the structure, eligibility criteria and financing basis of state provision. The relative position of pensioners tends to converge if income from all sources is included.

According to the OECD's latest analysis, the UK has an overall net replacement rate of 28.4% from 'mandatory pensions' (in the UK, the State Pension) for an average earner (well below the OECD average of 58.6% and the EU average of 63.5%). When voluntary provision (mainly workplace pensions) is included as well, the UK's net replacement rate rises to 61.0%, while the OECD and EU averages rise to 65.4% and 67.0% respectively.[69]

[69] 2OECD Pensions at a Glance 2019 table 5.6

Net pension replacement rates from mandatory public/ private and voluntary pension schemes in OECD countries

Pension income as a percentage of previous earnings, modelled for a retired private-sector employee who earned the average national wage, 2018-based



3.4 How much has the triple lock cost so far?

At the March 2021 Budget the DWP forecast that total annual State Pension expenditure in 2021/22 will be **£105.3 billion.**[70] We estimate that this figure is:

- **£7.9 billion (8.2%) higher** than if the triple-locked components of State Pension expenditure had instead been uprated **in line with earnings** since 2011/12 (estimated total spend in 2021/22 on this basis £97.4 billion)
- **£3.1 billion (3.0%) higher** than if triple-locked expenditure had instead been **double-locked using the higher of earnings or prices** (without a 2.5% minimum increase) since 2011/12 (estimated spend in 2021/22 on this basis: £102.2 billion)
- **£1.5 billion (1.5%) higher** than if triple-locked expenditure had instead been **double-locked using the higher of prices or a 2.5% minimum** (without earnings-linking) since 2011/12 (estimated spend in 2021/22 on this basis: £103.8 billion).

These figures reflect the cost of the triple lock to date. Estimates of the fiscal impact of the Bill in 2022/23 can be found below in section 6.2.

[70] DWP Benefit expenditure and caseload tables 2021, Spring Budget 2021 table 1a.

4 Future of the triple lock

4.1 Debate around keeping the triple lock

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

Critics argue that the triple lock is unfair because older adults currently experience higher standards of living than younger people can expect to enjoy in the future, and it is unfair to expect younger people to subsidise older people's income through the triple lock. Comparisons have been drawn with the freezing of working-age benefits for four years from 2015/16 and subsequent uprating by CPI, to support the argument that one group in society should not have their benefits uprated by a more generous index. [71]

Organisations including the Institute for Fiscal Studies have argued that the triple lock is unsustainable in the long term, noting that it will rise faster than either earnings or prices over time and so will take up an increasing share of public funding.[72] More recently, the Resolution Foundation has argued that the triple lock is a "messy way" to achieve the objective of a higher State Pension, and that the "seismic effects" of the coronavirus pandemic on the jobs market is exposing this.[73]

On the other hand, a range of organisations argue the policy is important in maintaining the value of the State Pension for younger people. The National Pensioner's Convention, for example, has noted that many future pensioners are likely to have less generous defined contribution occupational pensions, alongside facing a rising State Pension age, and has argued that ensuring a "decent living state pension" through the triple lock is even more important for future generations.[74]

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 need to save privately. It found the proportion of earnings that those with higher incomes needed to contribute to a private pension was

[71] PPI, How will the removal of the State Pension lock affect adequacy?, March 2018, p26

[72] Institute for Fiscal Studies evidence to the Work and Pensions Committee (IGF0023, Feb 2016); similar views were express by the Work and Pensions Committee in their report on Intergenerational Fairness in November 2016: Work and Pensions Committee, Intergenerational fairness, HC 59, November 2016

[73] Resolution Foundation, Locked in? The triple lock on the State Pension in light of the coronavirus crisis, 26 June 2020

[74] National Pensioners' Convention, Triple lock campaign briefing, January 2017

less affected by changes in indexation than it was for low earners who are more dependent on State Pensions and benefits.[75]

4.2 Future options

Expenditure on the State Pension can be controlled either by:

1. changing the uprating arrangements, and/or
2. increasing the State Pension age (SPA).

In 2016 the Work and Pensions Select Committee pointed to the trade-off between these two factors in its report on Intergenerational Fairness and concluded that the Government should not 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.[76]

In his review of the SPA in 2017, John Cridland recommended an increase to 68 over the period 2037 and 2039. He said if further savings were needed, these should be made by withdrawing the triple lock and a move to 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.[77]

In July 2017 the Government said it would adopt Cridland's proposed timetable, subject to a future review to take account of more recent life expectancy projections and to evaluate the effects of current rises in State Pension age.[78]

In its response to the House of Lords Intergenerational Fairness and Provision Committee's report on tackling intergenerational fairness, the Government

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

[76] Work and Pensions Committee, Intergenerational fairness, HC 59, November 2016

[77] Independent Review of the State Pension age, Smoothing the transition: Final report, March 2017

[78] DWP, State Pension age review: final report, July 2017, p4

argued that the triple lock should not be viewed in isolation, and that its introduction of the new State Pension had put the system on a more sustainable footing. It noted that its proposed timetable for future increases in the SPA would help ensure fairness and sustainability.[79]

Alternatives to the triple lock

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

The IFS argues 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.”[80] 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.[81]

The Work and Pensions Select Committee later recommended this approach in its 2016 report on Intergenerational fairness:

> 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.[82]

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

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

[81] Benefit spending and reforms – the Coalition Government’s record, IFS Election 2015 Briefing Note No 3, January 2015

[82] Work and Pensions Committee, Intergenerational fairness, HC 59, November 2016

A version of this proposal was recommended in the Resolution Foundation's Intergeneration Commission report on intergenerational fairness, published in May 2018. This was a two-step proposal to maintain the value of the new State Pension relative to earnings at a slightly higher level than the then-current position. It recommended, firstly, that the Government should increase the value of the new State Pension relative to earnings between 2022 and 2035 by 1% above average earnings growth, to reach 32.5% of median earnings. After this, it proposed the introduction of what it called a 'double lock', whereby "the State Pension should maintain its peg to earnings in the medium term, but could be uprated by more than earnings in years when prices rise faster, with the gap then subsequently being closed by increases less than earnings".[83]

On 25 April 2019, the House of Lords Select Committee on Intergenerational Fairness and Provision also 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."[84]

[83] Intergenerational Commission, A New Generational Contract: the final report of the Intergenerational Commission, 8 May 2018, pp172-5

[84] House of Lords Intergenerational Fairness and Provision Committee, Tackling intergenerational fairness, HL paper 329, April 2019

5 Impact of the coronavirus

The economic disruption caused by the coronavirus outbreak led the Government to intervene to ensure it met its commitment to apply the triple lock, so that State Pensions increased from April 2020.

This was in response to the fall in average earnings in mid-2020 which, without Government intervention, would have meant that most State Pension rates would have remained frozen in 2021/22.

In 2021, the opposite is the case with a strong rebound in earnings. The Department for Work and Pensions (DWP) estimated that earnings growth for May to July 2021 (the reference period for uprating) would be between 8% and 8.5%. It estimated that applying the existing legislation on uprating would mean additional spending of around £4-5 billion on the basic and new State Pension in 2022/23, compared with uprating by the higher of 2.5% or expected price inflation.[85]

5.1 Social Security (Uprating of Benefits) Act 2020

The Government introduced the Social Security (Uprating of Benefits) Act 2020 to enable the basic and new State Pensions, and the Standard Minimum Guarantee in Pension Credit, to be uprated in 2021/22. Primary legislation was required because the Social Security Administration Act 1992 (section 150A) prevents the Secretary of State from bringing forward an Uprating Order if earnings growth is negative.

The relevant earnings benchmark for the triple lock is the year-on-year change in the Average Weekly Earnings index for May to July.[86] The figure for July 2020 was published on 13 October 2020 and showed a 1.0% year-on-year fall in average earnings due to the pandemic.[87]

The Government said the legislation would allow it to meet the requirements of the triple lock: to increase State Pensions in line with earnings, prices or 2.5%, whichever is higher.[88]

[85] Legislation to ensure fairness for pensioners and taxpayers, DWP press release, 7 September 2021

[86] ONS dataset KAC3: Average Weekly Earnings (AWE) whole economy year on year three month average growth (%): seasonally adjusted total pay excluding arrears.

[87] HL Deb 13 October 2020 c280GC

[88] Bill 186 2019-21-EN, paras 1-5

The legislation and maintenance of the triple lock had cross-party support. Introducing the Second Reading debate, Work and Pensions Secretary, Thérèse Coffey, said the Bill:

> ...makes technical changes for one year only that will ensure that state pensions can still potentially be uprated, despite the likely fall in earnings. This will allow the Government to maintain a manifesto commitment to the pensions triple lock policy, providing peace of mind to pensioners about their financial health.[89]

At Second Reading in the Lords on 13 October 2020, the DWP Minister Baroness Stedman-Scott said future decisions on uprating would be made depending on the wider public finances:

> Let me be clear: for 2022-23, we are dealing with a huge amount of uncertainty. No one can predict with confidence what earning trends will be over the course of next year, which will be the relevant index for uprating decisions for the following April. Of course, we hope that earnings will increase as the economy recovers, and the Secretary of State will look at this issue when she conducts a statutory annual review of earnings, prices and benefit rates in 2020-21. That will also be the process by which annual uprating decisions will be made in future years, and any decisions will be taken in the context of the wider public finances.[90]

5.2 Earnings growth since mid-2020

Following negative earnings growth in mid-2020, the Average Weekly Earnings (AWE) index has risen sharply. The year-on-year increase in the AWE index for May to July 2021 is **8.3%**.[91] This is in line with the DWP's expectation at the time of publishing the Bill that the earning growth figure would be between 8% and 8.5%.[92] This is substantially higher than the figure of 4.6% forecast by the Office for Budget Responsibility (OBR) in March 2021.[93]

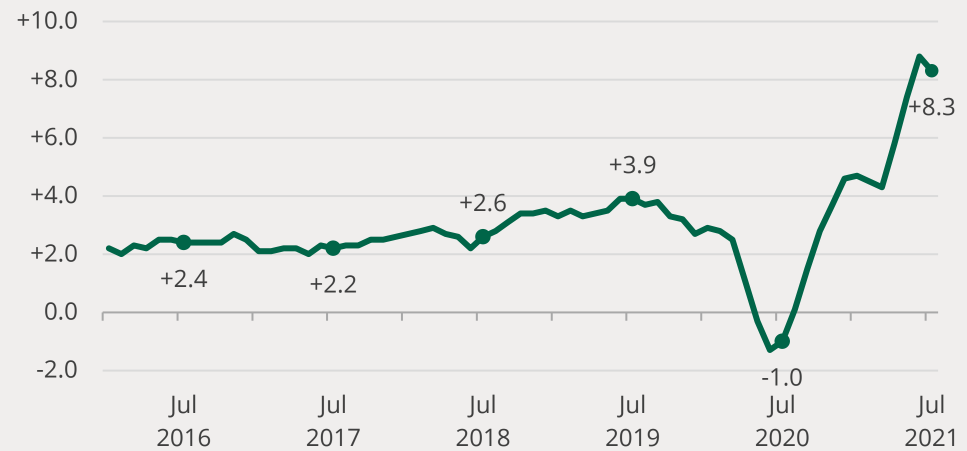
[89] HC Deb 1 October 2020 c559

[90] HL Deb 13 October 2020 c309GC

[91] ONS dataset EARN01: Average weekly earnings (14 Sept 2021 edition) table 1, data series KAC3

[92] Bill 158 2021-22-EN, para 4

[93] OBR, Economic and Fiscal Outlook – March 2021, Table 2.12



Source: ONS series KAC3, Average weekly earnings (AWE) whole economy year-on-year three-month average growth. July values for uprating purposes displayed on the chart.

Inflation, as measured by the Consumer Price Index (CPI) has also risen in recent months but by less than average earnings. The CPI figure in August 2021 was 3.2%, up from 2.0% in the previous month. The figure for September 2021 (the relevant one for uprating purposes) will be published by the ONS on Wednesday 20 October.[94]

Source: ONS series D7G7, CPI annual rate. September values for uprating purposes displayed on the chart.

[94] See ONS release calendar

Why is average earnings growth so high?

Two main factors arising from the Covid-19 outbreak are thought to be behind the unusually strong growth in annual earnings this year, making this statistic less reliable as a guide to underlying changes in earnings experienced by workers:

- Base effect: wages in mid-2020 were depressed by furlough and reduced hours. Fewer jobs are affected by this in mid-2021, meaning weekly wages are higher.
- Compositional effect: job losses during the pandemic affected lower-paid roles the most, artificially pushing up average wages among those jobs that remained.

In July 2021, the Office for National Statistics (ONS) published an assessment of these effects (Far from average: How COVID-19 has impacted the Average Weekly Earnings data,). Taking the 6.6% growth in average regular earnings recorded in May 2021, [95] the ONS attempted to strip out the Covid-related distortions to reveal the underlying rate of earnings growth.

It found that the base effect would reduce the headline rate by 1.8 to 3.0 percentage points, and that the compositional effect was 0.4 percentage points above pre-pandemic levels. This gives an underlying rate of 3.2% to 4.4%.

The ONS cautioned that this estimate comes with “a lot of uncertainty”:

> removing base and compositional effects is not straightforward, and often there is just not one way of doing this that everyone would agree on. So any estimates of underlying growth rates are uncertain and need to be treated with caution.[96]

Average earnings and the triple lock

As evidence of a spike in the Average Weekly Earnings figures grew in summer 2021 speculation grew that the Government might suspend the earnings element of the triple lock for the April 2022 State Pensions uprating.[97]

On 9 July, the Chair of the Commons Treasury Select Committee, Mel Stride, wrote to the Chancellor of the Exchequer, Rishi Sunak.[98] The letter noted recent data showing a marked growth in average earnings, and its potential impact on State Pensions spending. It also highlighted the recommendation in the Committee’s September 2020 report Economic impact of coronavirus: the challenges of recovery, that lifting the triple lock on pensions in 2022 was

[95] ONS series KAI9 Average Weekly Earnings (AWE): Whole Economy Year on Year Three Month Average Growth (%): Seasonally Adjusted Regular Pay Excluding Arrears

[96] ONS, Far from average: How COVID-19 has impacted the Average Weekly Earnings data, 15 July 2021

[97] See for example ‘Triple lock ‘ticking time bomb’ as earnings grow 8.8%’, FT Adviser, 17 August 2021

[98] Letter from Mel Stride to Rishi Sunak on the “triple lock” on pensions, 9 July 2021

"a sensible proposal and should be carefully considered". Mel Stride asked the Chancellor:

- What do the Treasury's own calculations indicate about how much the distortions in wage data arising from the large numbers in furlough last year will increase the cost of the "triple lock" against the path envisaged pre-lockdowns?
- What consideration has the Treasury given to (1) temporarily suspending the wages element of the "triple lock" or (2) temporarily calculating the wage growth differently this year, for example by using an average of the growth in wages over a longer period than is usual?
- What legislative changes would be required to undertake either of the above options?

In his response on 3 August, the Chancellor said he was "committed to ensuring that older people are able to live with the dignity and respect they deserve" and noted, because of the Government's policies, the full basic State Pension in 2021/22 was worth £2,050 more in cash terms than in 2010. Rishi Sunak added:

> The Government recognises that there are legitimate concerns about potentially artificially inflated earnings numbers feeding into the uprating of the state pension in 22/23. However, the trajectory of average earnings remains uncertain, and it is not yet clear whether there will be a "spike" as forecasted. We will continue to examine the data as it becomes clearer, and we will be guided by the principle that decisions on pensions must be fair to both pensioners and taxpayers.

Following reports that the Government would indeed suspend the earnings element of the triple lock for the 2022/23 uprating, Mel Stride issued a statement on 6 September:

> Over the last decade, the pensions triple lock has successfully protected the incomes of older people, who often have limited opportunities to increase their earnings. However, the 'triple lock' is unsustainable in its current form. A potential almost double-digit percentage rise is unrealistic and unfair, with knock-on effects for the public finances.
>
> Given that average wage levels have been skewed by the unprecedented events of the past 18 months, the Chancellor should temporarily suspend the wages element of the lock. This is a sensible approach which will aid our recovery from the pandemic.[99]

[99] Chair comments on pensions triple lock, Treasury Committee, 6 September 2021

6 The Bill

The Social Security (Uprating of Benefits) Bill 2021-22[100] was introduced on 8 September 2021. It is due to complete all its Commons stages on Monday 20 September. The Explanatory Notes on the Bill[101] and information on the progress of the Bill can be found on the Parliament website.

The Bill's purpose is to suspend the earnings element of the triple lock so 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, will increase by either inflation or 2.5% (whichever is greater) at the April 2022 benefits uprating. This would only apply for the tax year 2022/23.

6.1 Announcement of the Bill

The Government formally announced it would introduce the Bill in a statement to the House of Commons by the Secretary of State for Work and Pensions, Thérèse Coffey, on 7 September.[102] The Secretary of State said that while the labour market had shown strong signs of recovery and earnings had risen at an unprecedented rate as the economy had reopened, the statistics were a "distorted reflection" of earnings growth.

In light of the "irregular statistical spike in earnings" over the uprating review period – which was expected to be 8% or more – Thérèse Coffey said another one-year adjustment was needed.[103]

The Bill would set aside the earnings element of the triple lock so State Pensions would increase by 2.5% or inflation, whichever is higher. Dr Coffey continued:

> That will ensure pensioners' spending power is preserved and protected from higher costs of living, but also ensure that as we are having to make difficult decisions elsewhere across public spending, including freezing public sector pay, pensioners are not unfairly benefiting from a statistical anomaly. At a time when we have made tough decisions to restore the public finances which have impacted working people, such as freezing income tax personal thresholds at

[100] 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.

[101] Bill 158 2021-22-EN

[102] HC Deb 7 September 2021 cc185-193

[103] Ibid, c185

> current levels, that would not be fair. Setting aside the earnings element is temporary and only for one year. This means we can and will apply the triple lock as usual from next year for the remainder of this Parliament, in line with our manifesto commitment.
>
> While the earnings growth is a welcome sign of the country's overall economic recovery given the unique and exceptional events of the past 18 months, this year's measure is being skewed and distorted, reflecting a technical and temporary period of reverting or rebounding earnings—the differing cohorts of people who were retained or made redundant. As a result, the earnings measure is a statistical anomaly and is not a real-life basis for considering this year's uprating of state pensions.[104]

For Labour, the Shadow Secretary of State for Work and Pensions, Jonathan Reynolds, urged the Government to provide further information:

> Will they show us their analysis that has led to this decision? Will they explain why they could not assess the underlying levels of wage growth with the impact of furlough discounted? Will they publish the legal advice cited as the basis for this decision? Only then could any Opposition or any MP make a decision on what is being proposed.[105]

Mr Reynolds said pensioners and workers, as well as the Opposition, needed "fuller reassurance before any decision can be made on prospective legislation."[106]

Responding to the question on whether the Government had considered using an alternative measure of earnings, the Secretary of State said "the Office for National Statistics produced some data but we did not find it necessarily reliable, in terms of what could be considered as a substantiated basis to make the change".[107]

For the SNP, David Linden said the announcement was "a clear violation of the contract offered to voters by a Tory Prime Minister who says one thing yet does another after he gets a whopping majority in Parliament." He added:

> Given that Scottish pensioners clearly cannot trust the British Government, will the British Government now devolve powers relating to the state pension to Scotland's Parliament, or is it easier for Scotland to just vote for independence and end pensioner poverty from London once and for all?[108]

[104] Ibid, cc185-186
[105] Ibid, c187
[106] Ibid, c187
[107] Ibid, c187
[108] Ibid, c189

6.2 Provisions in the Bill

As outlined in section 2.1 of this briefing, section 150A of the Social Security Administration Act 1992 requires the Secretary of State to lay a draft order before Parliament each year to increase the levels of the basic and new State Pension, the Standard Minimum Guarantee in Pension Credit, and survivors' benefits in Industrial Death Benefit, by a percentage not less than the increase in earnings.

Clause 1 of the Social Security (Uprating of benefits) Bill 2021-22 provides for a review of the levels of the State Pensions and payments covered by s150A of the 1992 Act by reference to prices, instead of earnings, for the tax year ending on 5 April 2022 only.

The clause also inserts new subsections in s150A of the 1992 Act imposing a duty on the Secretary of State to increase the relevant amounts at least in line with prices, or by 2.5%, if inflation has been less than this or there has been no inflation. This applies to the **April 2022 uprating only**. For subsequent years, the requirement to increase the relevant amounts at least in line with earnings will apply, unless the Government introduces further legislation to modify the statutory uprating framework.

The Bill applies to England, Wales and Scotland (stated in **clause 2**). Survivors' benefits in Industrial Death Benefit fall within the legislative competence of the Scottish Parliament, so in this respect the Bill will require a Legislative Consent Motion from the Scottish Parliament. Clause 1 provides that, in relation to survivors' benefits in Industrial Death Benefit, the provisions in the Bill have effect as if references to "the Secretary of State" and to "Parliament" were references to the Scottish Ministers and the Scottish Parliament respectively.

The Bill does not extend to Northern Ireland, but the Department for Communities has a policy of maintaining parity with Great Britain in relation to social security through its own legislation.[109]

The Bill is being fast-tracked through Parliament. The Government says this is necessary to meet the annual uprating timetable and associated hard IT delivery deadlines:

> The legislation is required to be in place for up-rating for the 2022-23 tax year. To ensure that individuals receive their increased pensions and benefits in the first week of the new tax year (see section 150A(7) of the 1992 Act), the up-rating process has to begin six months before those increases are due to take effect. A review under section 150(1), 150A(1) and 151A(1) is carried out by the Secretary of State in the autumn (following publication of the September inflation and earnings figures in mid-October). The proposed increases to benefits

[109] Bill 158 2021-22-EN, para 17

> and pensions are then announced to Parliament at the end of November following which the IT must be programmed.
>
> The Secretary of State will need to have completed her review of earnings, and made a Statement to Parliament, by 26 November 2021, 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.
>
> The Bill will therefore need Royal Assent by mid-November 2021 at the very latest. This would give the Secretary of State a week to conclude her review and make decisions about benefit and pension rates in advance of the IT delivery deadlines.[110]

The Government said the Bill was introduced "as soon as possible after it became clear from the indices that earnings growth over the review period had been significantly affected by the Coronavirus pandemic".[111]

What will the impact of the changes be?

The financial impact of suspending the earnings element of the triple lock for the April 2022 benefits uprating will depend on the May-July Average Weekly Earnings figure, and whether, following the announcement (in mid-October) of the September Consumer Prices Index (CPI), price inflation or 2.5% will be the basis for uprating State Pensions.

A DWP press release on 7 September said earnings growth of between 8% and 8.5% would mean a difference of around £4-5 billion in basic and new State Pensions expenditure in 2022/23, when compared with the higher of 2.5% or expected price inflation.[112]

On 14 September the Office for National Statistics (ONS) revealed that earnings growth in the relevant period was **8.3%.**[113] The Library estimates that:

- Uprating the triple-locked elements of the State Pension by 2.5% instead of 8.3% saves **£5 billion** in State Pension expenditure in 2022/23;
- If, alternatively, the triple-locked elements were to be uprated by 3.2% (in line with the August 2021 rate of CPI inflation) instead of 8.3%

[110] Bill 158 2021-22-EN paras 20-22
[111] Bill 158 2021-22-EN, para 23
[112] Legislation to ensure fairness for pensioners and taxpayers, DWP press release, 7 September 2021
[113] ONS dataset EARN01: Average weekly earnings (14 Sept 2021 edition) table 1, data series KAC3

earnings growth, the saving in State Pension expenditure would be **£4.5 billion** in 2022/23.[114]

If increased in line with earnings (8.3%), the weekly amount of the full basic State Pension would rise by £11.40 and the new State Pension by £14.90 in April 2022. If instead the 2.5% minimum is used, the increases would be £3.45 for the bSP and £4.50 for the nSP.

Full value of basic and new State Pensions
£ per week, nominal (cash) terms

	Basic State Pension		New State Pension	
	Rate	Change vs 2021/22	Rate	Change vs 2021/22
2021/22 actual	137.60	-	179.60	-
2022/23 illustrative amounts if raised by:				
• 2.5% (triple-lock minimum)	141.05	+3.45	184.10	+4.50
• 3.2% (Aug 2021 CPI inflation)	142.00	+4.40	185.35	+5.75
• 8.3% (Jul 2021 Ave. weekly earnings)	149.00	+11.40	194.50	+14.90

Source: HoC Library calculations based on DWP Benefit and pension rates 2021 and 2022, ONS CPI inflation series D7G7 and Average Weekly Earnings series KAC3.

Responses to the Bill

Media reports suggest that while many in the pensions field (though not all) consider a one-year suspension of the triple lock not unreasonable in the circumstances, reinstating the triple lock (or some other mechanism for delivering real terms increases in state pensions) will be crucial to protect the financial position of current and future pensioners.[115]

An FT Adviser article on 7 September quoted Tim Middleton, director of policy and external affairs at the Pensions Management Institute, as saying:

> "There are many within the pensions industry who have argued that the triple lock would be impossible to sustain indefinitely, so perhaps today's announcement should be regarded as an acceptance of the inevitable."[116]

He said, "time will tell" whether the planned restoration of the earnings-related element actually happens.[117]

[114] HoC Library estimate based on DWP Benefit expenditure and caseload tables Spring Budget 2021 edition

[115] See for example Triple lock suspension unpopular but fair, says industry, FT Adviser, 8 September 2021; Two in five advisers agree with triple lock earnings scrap, FT Adviser, 9 September 2021

[116] State Pension: Triple lock earnings link suspended for one year, FT Adviser, 7 September 2021

[117] Ibid.

The same article quoted Steve Webb, former Pensions Minister under the Coalition Government and now a partner at pensions consultants Lane Clark & Peacock, as saying:

> With the earnings figures showing a spike because of the pandemic it is understandable that the government has taken the decision to suspend the triple lock for one year only.
>
> But it is very welcome that they have recommitted themselves to the policy for future years.
>
> The UK state pension remains relatively low by international standards and many women in particular depend on the state pension for a large part of their income in retirement.
>
> To relax the rules on a one-off basis because of the distortions caused by the pandemic but to reinstate the policy for future years strikes the right balance.[118]

In a subsequent FT Adviser article, Steve Webb emphasised the importance of reinstating the triple lock following the one-year pause. The former minister noted that many of those retiring in coming decades will not have access to final salary occupational pensions, and that it will take time for auto-enrolment to effect defined contribution pension pots:

> It is easy to forget that the triple lock was introduced after a 30-year period when the basic pension was generally pegged only to price inflation. As a result, the real value of the pension had shrunk steadily as a share of the national average wage and had become one of the lowest in the developed world.
>
> Although 10 years of the triple lock has helped to stabilise the situation there is still a long way to go. You cannot undo 30 years of damage in 10 years.[119]

Others say the decision to suspend the triple lock should be viewed in the wider context. One pensions industry figure said the decision was "undoubtedly linked" to parallel announcements on social care reform. Another said defending a significant increase in the State Pension would have been a "tricky message for the government to get across", especially as it increased National Insurance rates to pay for health and social care.[120]

Age UK Charity Director Caroline Abrahams said that if suspending the triple lock for a year "helps get a Government deal on social care over the line" it was a "price worth paying", but only it if it is a one-off measure and not "a

[118] Ibid.

[119] Why we need the triple lock back in 2023, FT Adviser, 9 September 2021

[120] Triple lock suspension unpopular but fair, says industry, FT adviser, 8 September 2021

sneaky way for Ministers to ditch the triple lock altogether." Ms Abrahams added:

> With more than two million pensioners currently living in poverty, there's a strong case for keeping the triple lock as it is at the moment. However I do think most older people will understand if they receive only a relatively modest State Pension increase next April. It is however imperative that the triple lock reverts to normal next year to help all those pensioners on low & modest incomes who desperately need it.[121]

The TUC General Secretary Frances O'Grady is strongly against the one-year suspension. Responding to the Government's announcement, she said:

> The UK has one of the least generous state pensions in the developed world.
>
> The triple lock was introduced to close this gap and lift pensioners out of poverty. Suspending it will only halt our progress.
>
> This is a dangerous precedent. If the government is allowed to pick and choose when to apply the triple lock, the result will be lower state pensions for future generations and more pensioners experiencing hardship.
>
> This decision will hit old and young alike. A race to the bottom on pensions helps no one.[122]

Daniela Silcock, Head of Policy Research at the Pensions Policy Institute, argued that instead of suspending the earnings element of the triple lock, the Government should have considered other options.

She said a temporary suspension was better news for pensioners than scrapping the triple lock completely, but noted that it represented a broken manifesto promise and risked damaging public trust. She added:

> An alternative approach would have been to consider the rise in earnings over two years to give a more realistic estimation of real wage increases without the artificial impact of the pandemic impact in the year on year earnings statistics. This would need a pension increase of 5.3% in 2022 to match the increase in earnings since the setting of the State Pension level in 2020. Increasing the State Pension by this amount would save £3.1bn in 2022, would mean that pensioner standards of living increases would more closely resemble those in work, and would not break the earnings-link in the same

[121] Age UK responds to triple lock suspension, 7 September 2021

[122] TUC – suspending triple lock will hurt old and young alike, 7 September 2021

> way, though a new definition of earnings may need to be approved for one year.[123]

Renny Biggins, Head of Retirement at The Investing and Saving Alliance (TISA) said the pandemic had highlighted the need to review the triple lock formula in the long term. He argued:

> It should not be so visibly skewed, either positively or negatively, by outsized fluctuations in one of its parameters. A one-year suspension is a reasonable, short-term solution to a disproportionate outcome.
>
> However, longer term, there is a clear need for a formula that guards against such short-term distortions while maintaining a long-term rise in the state pension in real terms, adjusting for inflation.[124]

[123] "Basing the State Pension rise on average earnings over two years would mean that pensioner standards of living increases could more closely resemble those in work" says Pensions Policy Institute, Pensions Policy Institute press release, 8 September 2021

[124] Triple lock suspension unpopular but fair, says industry, FT adviser, 8 September 2021

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