

Triple Lock Campaign Briefing

January 2017

Background

When the Labour Government decided to raise the basic state pension in line with inflation in April 2000, they faced a huge backlash. A 1.1% increase based on the Retail Price Index (RPI) produced a 75p a week rise which was widely seen as both insulting and totally inadequate.

As a result of pressure from organisations like the NPC, in 2001 Chancellor Gordon Brown made a commitment to increase the Basic State Pension (BSP) by a minimum of 2.5% or prices, whichever was higher.

When the Coalition Government came to power in 2010, they kept the 2.5% guarantee, but added to it prices inflation (as defined by the lower Consumer Price Index rather than the RPI that Brown has used) and average earnings. These three elements of indexation became known as the “triple lock”.

However, it is the 2.5% guaranteed minimum increase introduced in 2001, rather than the other two elements (CPI and earnings), that is now under attack.

How generous is the triple lock?

Much of the current argument surrounding the triple lock is based on the claim that it is too generous and financially unaffordable. Table 1 shows exactly how in the last six years the BSP has been increased since the triple lock was introduced. Prior to that, the BSP rose by the greater of RPI or 2.5%.

In the first year of the triple lock the BSP rose in line with CPI – but that was lower than pensioners would have received under the system prior to the triple lock being introduced. In the second year, it rose in line with the 2.5% minimum – just as it would have done prior to the triple lock. In the third year, it again rose by CPI – which again was lower than the RPI figure that pensioners would have received previously. In the fourth year the BSP went up again by the 2.5% minimum and in year five, it rose by average earnings. This has been the only time in the six year lifespan of the triple lock that it has given a higher award than pensioners would have received anyway under the system that had been in place since 2001. For 2017, the BSP will again only rise by the 2.5% minimum.



During the Autumn Statement on 23 November, Chancellor Philip Hammond announced there would be a review of indexation arrangements for the state pension to take effect after the 2020 election.

Since then, there have been a number of politicians, media commentators and think tanks calling for the triple lock to be scrapped.

This briefing aims to counter the claim that pensioners have benefitted so much from the triple lock that it is no longer needed for existing and future generations.

Table 1: Indexation of the BSP

Year	Rate of Indexation	Mechanism for the increase
2012	5.2%	CPI (lower than RPI that year)
2013	2.5%	Guaranteed minimum
2014	2.7%	CPI (lower than RPI that year)
2015	2.5%	Guaranteed minimum
2016	2.9%	Average Earnings
2017	2.5%	Guaranteed minimum

The argument that the triple lock is therefore either too generous or unaffordable simply isn't supported by the facts. On two occasions pensioners got less than they would have done under the pre-triple lock system, on three occasions they got exactly the same and on just one occasion did they get a higher increase.

These figures also ignore the very real reduction in value that the BSP suffered when the link with earnings was broken by the Conservative government in 1980. In 2010, when the triple lock was introduced, the BSP would have stood at £161.30 a week had the earnings' link still been in place, compared to the actual figure of £97.65. This loss, including when the triple lock was in place, has never been recouped. The critics therefore have to argue that pensioners have done better out of the triple lock than younger people at work because the state pension has risen faster than average earnings.

Have pensions gone up more than earnings?

Tables 2 and 3 show the actual growth that has taken place in the BSP and average earnings since 2001. They reveal that over the last 15 years, whilst the BSP has risen by 64.5% compared to average wages for full-time work of 52.1% - the actual gap between the BSP and earnings has widened. As a result, average wages now stand at £26,260 compared with a BSP of just £6203.60. Using percentage increases often paint an inaccurate picture of how much money people actually receive, and most people would accept that even 10% of very little is still very little. It is true that the percentage increase in the BSP in the last 15 years has been higher, but the amount pensioners have received is just 27% of the monetary increase in full-time average earnings.

Table 2: Growth comparison between the BSP and Full-Time Average Earnings

	Weekly Amount 2001	Weekly Amount 2016	Percentage Increase	Current Annual Amount
Basic State Pension	£72.50	£119.30	64.5%	£6,203.60
Average Earnings	£332	£505	52.1%	£26,260

Likewise Table 3 shows that since 2001, the BSP has increased as a proportion of full-time average earnings from 21.8% to 23.6% - an increase of just 1.8% in 15 years. This could be due to a slump in wage growth over that period, a higher increase in state pensions or a combination of the two. However, more important is the fact that over the last 15 years, the gap between the BSP and average earnings has widened by £126.20 a week. Any suggestion that state pensions have therefore risen by more than average earnings in real terms is simply incorrect. If anything, the BSP is falling behind.

Table 3: BSP as a % of Average Full-Time Earnings (AFTE) and gap between BSP and AFTE

	2001	2016
Basic State Pension as a % of Average Earnings	21.8%	23.6%
Gap between BSP and Average Earnings (weekly)	£259.50	£385.70

Intergenerational Fairness

Those against the triple lock argue that it is unfair on younger workers who are seeing state pensions rise faster than their own wages. However, the pay-as-you-go National Insurance system that funds the state pension is based on today's workers paying for today's pensions, just as today's pensioners did when they were at work. This is a principle of generational solidarity rather than unfairness.

However, it is worth highlighting that the triple lock is actually unfair to those who retired before April 2016, because under the current rules only the BSP is linked to the triple lock whilst any state second pension such as SERPS or Graduated Pension is tied to the CPI. In 2016, this meant the state second pension did not rise at all. By contrast, all of the new state pension that came into force in April 2016 is linked to the triple lock. This means that in April 2017 older pensioners will get a 2.5% increase on £119 a week, whilst newer pensioners will get a 2.5% increase on £155 a week. As a result, over time the gap between the old and new state pensions will widen.

Will future generations need a decent state pension?

Critics of the triple lock such as Baroness Ros Altmann and former Work and Pensions Secretary of State, Stephen Crabb have started to argue that the triple lock should be replaced with a system whereby the BSP would be linked to earnings, but would have a temporary link to inflation if it exceeded wage growth. In effect it would introduce a rather complicated double lock that ensured the state pension would never rise higher relative to earnings, or by itself exceed the official poverty level. Andrew Hood of the IFS stated that this would allow pensioners to "have their cake and eat it".

However, it is unlikely that future generations of pensioners will see it this way. A recent National Audit Office report found that 76% of people reaching retirement in

2060 will be worse off under the new state pension than if they had been on the old system. 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.

Future governments will also need to consider whether or not they are prepared to support a system that might produce a repeat of the 75p incident that forced a change to indexation back in 2001. A return to a style of indexation that does not offer a meaningful, minimum guarantee will inevitably see a decline over time in the value of the state pension, just as was the case after 1980 when the link with earnings was broken.

That's why all generations need a universal state pension set at 70% of the living wage (around £200 a week) which rises every year in line with the higher of wages, inflation (RPI and CPI) or 2.5%. This is the NPC's campaign.

Key arguments

1. Even with the triple lock and the 2.5% guarantee, the BSP has still not recovered the losses suffered as a result of breaking the link with earnings in 1980.
2. As a result, the BSP remains one of the least adequate in the developed world; ranked 32nd out of 34 OECD countries.
3. The triple lock has only given an increase in the BSP that was higher than pensioners would have received anyway under the system that was in place since 2001, on just one occasion.
4. Using percentages to compare increases in the BSP with those of average earnings doesn't show the actual picture of people's incomes. For example, the BSP is still £20,000 less than average earnings. For example, a 10% increase on £6000 is less than a 5% increase on £20,000.
5. Future generations are going to be even more reliant on the state pension in their retirement than their parents and grandparents. Scrapping the triple lock won't help younger people; it will make their pensions worse in the future.

Sources: DWP, IFS, NAO, ONS, Hansard and NPC calculations