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General Election 2024

Triple Lock Briefing Paper

Introduction

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This Briefing Paper is part of a series of papers sponsored by the People's Partnership, setting out some of the pensions policy areas that are likely to receive active discussion during the 2024 General Election campaign.

This first paper deals with the triple lock measure for uprating the State Pension. It sets out the policy, the stakeholders in the policy, issues at stake, and other policy options that have been suggested.

The PPI was formed on 22 January 2001, so that a permanent expert organisation would undertake rigorous research from an independent, long-term perspective.

The retirement, pensions and later life market are undergoing fast-paced changes brought about by legislation, technology, and the economy. We do not lobby for any particular issue or reform solution.

Our work facilitates informed decision making by showing the likely outcomes of current policy and illuminating the trade-offs implicit in any new policy initiative. We are proud that our research is used frequently by Government, Parliament, industry, consumers, academics, trade bodies, consumer groups and the media to improve policy and individual outcomes.

This Briefing Paper is authored by John Adams, Senior Policy Analyst.

The PPI is grateful for the input from Tim Gosling of People's Partnership, in the production of this paper.

Editing decisions remain with the author, who takes responsibility for any remaining errors or omissions.

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Triple Lock Briefing Paper

Why do we have the triple lock?

The triple lock is the mechanism used to uprate the State Pension in the UK. Under the triple lock the amount of the State Pension increases each year by the higher of the change in earnings growth, consumer prices, or 2.5%.

The triple lock is not enshrined in law, it is a commitment that has been made and supported by all three major political parties in their manifestos since it was introduced in 2012. The law requires the State Pension to be uprated by at least the increase in earnings growth.

The triple lock only applies to the core pension of the State Pension system, that is the basic State Pension for people who retired before April 2016 and the new State Pension for those who retired after, it does not apply to any Additional State Pension such as SERPS or S2P which are uprated in line with changes in consumer prices.

There was political consensus, following the 2004 report by the Pensions Commission, to introduce an earnings link to State Pension. At the time the triple lock was introduced, the level of the full basic State Pension had fallen from 26% of full-time average earnings in 1979 to a low of 16% in 2008. The triple lock was intended to have a ratcheting effect not only to stop the decline in value of the State Pension but to increase it as a proportion of average earnings. As of 2024 the basic State Pension is worth 20% of full-time average earnings, and the new State Pension is 26%.

Uprating by earnings allows recipients to maintain relative living standards

Taking each of the elements of the triple lock in turn:

The argument for linking pension uprating to **earnings** is that this method ensures that when people retire they are able to continue to partake in general economic growth and they don't get left behind the working population and maintain relative living standards.

Uprating the State Pension in line with **consumer price inflation** enables recipients to maintain their standard of living through retirement, as the costs of the goods and services they buy increase, so does their pension.

The **2.5%** element serves as a minimum increase and is said to be a "ratcheting" element. In years where inflation and earnings growth are low, the 2.5% minimum increases the ratio of State Pension to average earnings, regaining some of the ground lost since the 1970s.
Of these elements, it is generally assumed that earnings growth will outstrip CPI, and will be higher than 2.5%. However in recognising that there is value to the other elements being guaranteed minima, the assumed rate of increase for the triple lock is higher than the assumed increase in any of its individual constituents.

The current working population are the future recipients of the State Pension

The main stakeholders for the triple lock are the Government, the recipients, and the working age population.

The **Government** has to balance state spending and tax revenue. The State Pension is a significant level of spending for the government comprising 4.6% of GDP in 2023/24. . Under the triple lock, State Pension spending is forecast to grow to 5.1% of GDP by 2025/26, though it will fall back to 4.9% by 2028/29[1] as a result of the increase in State Pension age to 67. This also brings up the point that a significant driver of growth in aggregate cost of the State Pension is the demographic increase in the number of people over State Pension age receiving it.

The triple lock is currently increasing the level of State Pension as a proportion of average earnings. . Before changing the inflation mechanism, the Government is likely to consider what its current objectives are in relation to State Pension and whether it has achieved its objectives or not. A fundamental element of this consideration will need to be "what is an adequate income in retirement, and to what extent should the State provide that income?".[2]

[1] PPI analysis of *March 2024 Economic and fiscal outlook* Office for Budget Responsibility (2024)
[2] The subject of adequacy in retirement was addressed in the report *What is an adequate retirement income?* Pensions Policy Institute (2021)

People who receive the State Pension are key stakeholders. Around 60% of pensioner households receive the majority of their income from the State, with State Pension making up 85% of that.[3] Uprating which allows maintenance of relative living standards will have a significant impact on people's quality of life. Other, non-state, income may be fixed without increases, or may increase at a rate lower than inflation. In these cases, people's overall income may not increase at a rate that allows them to maintain a standard of living without higher than earnings inflation increases on the State Pension.

The third group of stakeholders are the **current working population.** They are stakeholders in two distinct ways. First, they are the taxpayers that currently fund the State Pension, secondly, they are future recipients of the State Pension. The means of uprating the State Pension during working life will have a significant effect on the level of the State Pension when current workers retire. The higher the State Pension is at retirement for the current working population, the less they are dependent on savings in working life.

Sustainability is only one of the issues at stake

Discussion of the triple lock revolves around issues of **sustainability**, **adequacy**, and **fairness**.

Sustainability: the main issue relates to the high cost of State Pensions and how the triple lock increases that cost. The increase in the cost of State Pensions is not limited to the triple lock, it also reflects demographic changes leading to more people being in receipt of State Pension. Projections suggest that the increase in State Pension costs related to demographic changes significantly outweigh the increase in costs resulting from the triple lock.

Adequacy: The triple lock increases the relative level of the State Pension compared to average earnings. The presence of the 2.5% minima in the triple lock serves as a ratcheting factor in years when earnings growth and consumer inflation are low, increasing the adequacy of the State Pension. Discussion on adequacy of the triple lock may centre around the "correct" relative level of the State Pension, and whether the increases in the State Pension should make up for insufficient increases in private pensions in payment.

Fairness: There are a couple of dimensions to consider within fairness, these are generally presented in terms of cross subsidies.

Current State Pensions are paid for by the current working population, leading to concerns regarding intergenerational fairness, because the increasing costs of the triple locked State Pension fall on the current working population whereas the current pensioner population paid for a significantly lower State Pension for their predecessors. However there is the argument that the triple lock actually improves the State Pension even more for the current workforce than for current pensioners, because when they come to retire the ratcheted increases from a longer period of time will be baked into the pension they receive.

The other dimension is a cross subsidy as a result of higher earners paying more in National Insurance (NI) contributions than lower earners. The new State Pension (nSP) is accrued at a flat rate based on number of years of NI contributions, not the size of those contributions. So higher earners pay more for the same benefit as lower earners. This could be seen to suggest that the cost of the triple lock falls more on higher earners, whether or not this is desirable is a matter of political philosophy.

[3] PPI analysis of *Pensioners' Income Series: Data tables for financial years 1995 to 2023* Office for National Statistics (2024)

How do suggested alternatives compare?

There are a number of options available, aside from maintaining the status quo and keeping the triple lock in place. However other options have been put forward such as stripping back elements from the triple lock to overhauling the method of uprating as a means of protecting those on low incomes and instead offering targeted support to those at risk of poverty. These are listed in **Box 1.**

Box 1. Possible policy options

Policy Option	Description	Notes
Status quo, maintain the triple lock	Increase in line with higher of increase in CPI, Earnings Growth, and 2.5%	Continues to ratchet the State Pension when inflation and wage growth are low
Double lock	Increase in line with higher of CPI and Earnings Growth	Removes the "arbitrary" 2.5%, still has some ratcheting effect
Earnings linked	Increase in line with earnings growth	Legal minimum requirement
Earnings linked	Average of CPI and earnings growth	Suggested by OECD report,[4] likely to lead to a fall in ratio of State Pension to average earnings

The **double lock** removes the 2.5% minimum uprating from the triple lock, this means that in periods of low inflation and earnings growth there is no increase over and above the economic indicators. So the State Pension either keeps pace with cost of living increases or general growth in incomes, but is not rising at a level faster than either. This may be more palatable for the working population, who may become discontented with Government policy to see State Pensions increasing faster than their own incomes and beyond price rises. There is however still an element of ratcheting. By increasing as the maximum of two measures, then the result will tend to be that the State Pension will over time increase faster than if it were based on earnings growth alone, or CPI alone.

Increasing by **earnings growth** alone is the legal minimum requirement for State Pension increases (however this was suspended for a year in 2022/23 when it was argued that the measured increase in earnings was artificially high as a result of going from low furloughed incomes in the COVID-19 lockdown back to more normal post-Covid working incomes). Using earnings growth as the uprating measure allows the State Pension to maintain its value as a proportion of average earnings, but offers no protection from price inflation outstripping earnings growth as was the case during the cost of living crisis. This can lead to retired people being unable to maintain their standard of living.

The **OECD** suggested that the triple lock be replaced with uprating at the average of CPI and earnings growth with direct help to pensioners on lower incomes.[5] This was widely reported in the press as the OECD calling the triple lock unsustainable, though such reporting tended to neglect to raise the directed help for lower incomes. This approach aims to reduce spending on the State Pension while directing funds where they are needed the most by reducing the amount paid to the wealthier pensioners and targeting it at those in need. However, this approach would have the effect of reducing the State Pension as a proportion of average earnings and could play into concerns that younger generations have of the State Pension being eroded before they get to receive it. Creating a secondary benefit to meet the needs of the poor would rely on a means test similar to the Pension Credit, which tend to have low levels of take up, resulting in many people who are entitled not receiving the benefit. A separation from the State Pension may also remove the cultural recognition and sanctity from the top-up benefit, potentially making it more susceptible to future dilution.

[4] *OECD Economic Outlook, volume 2023, issue 2* Organisation for Economic Co-operation and Development (2023)
[5] *OECD Economic Outlook, volume 2023, issue 2* Organisation for Economic Co-operation and Development (2023)

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There has been less commitment to the triple lock than in previous elections

In previous elections all major parties have pledged to maintain the triple lock for at least the length of the next parliament. The State Pension is an important issue for retired people, so making changes to the uprating of it could have a negative impact on a large section of the electorate. Balancing this is the desire of political parties to show they are careful stewards of public finances and to reign in the ratcheting of the State Pension, given that State Pensions make up 4.6% of GDP.[6]

In the year before the election there has some uncertainty regarding the main parties' commitment to maintaining the triple lock. **The Liberal Democrats** made an early commitment to the triple lock in September 2023, while **Labour** and the **Conservatives** were being more circumspect and not directly committing to the triple lock. This was the case from late 2023 through to early 2024. However, in April 2024 Labour made a commitment to keep the triple lock for the duration of the next parliament.

The Conservative Party announced on 28 May that they would be introducing "triple lock plus" that would extend the triple lock to the uprating of the income tax personal allowance for pensioners, with the aim being that the State Pension would always be below the level of the personal allowance and therefore not subject to tax. The plan is projected to cost £2.4bn a year by 2029/30.[7]

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[6] PPI analysis of March 2024 Economic and fiscal outlook Office for Budget Responsibility (2024)
[7] Conservative Party Costings